

*In the opinion of Bond Counsel, for federal income tax purposes under existing laws, regulations, rulings, judicial decisions and other authorities (i) interest on the Series 2002A Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not treated as a preference item for purposes of the federal alternative minimum tax imposed on corporations, individuals and other taxpayers; however, such amounts are included in the adjusted current earnings of certain corporations for purposes of computing the corporate alternative minimum tax, and (ii) interest on the Series 2002B Bonds is excludable from the gross income of the owners thereof for federal income tax purposes but is treated as a preference item for purposes of the federal alternative minimum tax imposed on corporations, individuals and other taxpayers. No opinion is expressed as to the exclusion of interest on any Series 2002 Bonds for any period during which such bond is held by a person who is a substantial user of the facilities financed or refinanced from the proceeds of the Series 2002 Bonds or by a related person as defined in Section 147(a) of the Code (as hereinafter defined). See "Tax Matters" herein for other qualifications to the foregoing and for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Series 2002 Bonds. In the further opinion of Bond Counsel, under the existing laws of the State of Hawaii, interest on the Series 2002 Bonds is exempt from all taxation in the State of Hawaii and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State of Hawaii on banks and other financial institutions may be measured with respect to the Series 2002 Bonds or income therefrom. See "TAX MATTERS" herein.*

**\$24,420,000**

## STATE OF HAWAII

### Harbor System Revenue Bonds

**\$7,760,000 Series A of 2002 (Non-AMT) and**

**\$16,660,000 Series B of 2002 (AMT)**

**Dated: April 1, 2002**

**Due: as shown on inside cover**

The Series 2002 Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds of the State, to pay the costs of issuance of such Series 2002 Bonds, and to provide a debt service reserve insurance policy as a reserve for the payment thereof. The Series 2002 Bonds are special limited obligations of the State, payable solely from and secured by the Net Revenues derived by the State from the ownership or operation of the statewide system of commercial harbors (the "Harbor System") after payment of certain outstanding harbor revenue bonds and costs of operation and maintenance.

The Series 2002 Bonds are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchases of the Series 2002 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants. Purchases of the Series 2002 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof. Beneficial owners of the Series 2002 Bonds will not receive physical delivery of the Series 2002 Bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2002 Bonds. So long as DTC or its nominee is the registered owner of the Series 2002 Bonds, payment of the principal of and interest on the Series 2002 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants (See "THE SERIES 2002 BONDS—Book-Entry System" herein).

The Series 2002 Bonds will be dated as of April 1, 2002, and will bear interest payable on January 1 and July 1 of each year, commencing on July 1, 2002, at the rates per annum as shown on the inside cover. The Series A of 2002 Bonds are not subject to redemption prior to maturity. The Series B of 2002 Bonds are subject to redemption prior to maturity as and to the extent described herein. See "THE SERIES 2002 BONDS—Redemption."

The scheduled payment of principal of and interest on the Series 2002 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2002 Bonds.

**Ambac**

The Series 2002 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Series 2002 Bonds. Neither the real property nor the improvements comprising the Harbor System have been pledged or mortgaged to secure payment of the Series 2002 Bonds.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices hereto, to obtain information essential to the making of an informed investment decision.

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#### MATURITY SCHEDULE

(See Inside Cover Page)

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*The Series 2002 Bonds are offered when, as and if issued, subject to the approval of legality by Pillsbury Winthrop LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its Counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California. It is expected that the Series 2002 Bonds in definitive form will be available for delivery to DTC on or about April 10, 2002.*

**UBS PaineWebber Inc.**

# MATURITY SCHEDULE

## State of Hawaii

### Harbor System Revenue Bonds

#### Series A of 2002 (Non-AMT)

<u>Maturity Date (July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>Maturity Date (July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
2002	\$ 100,000	3.00%	2.15%	100.186	2006	\$1,300,000	5.00%	3.87%	104.359
2003	1,145,000	3.00	2.65	100.416	2007	1,360,000	5.00	4.15	103.949
2004	1,185,000	5.00	3.13	103.984	2008	1,430,000	4.50	4.29	101.130
2005	1,240,000	5.00	3.58	104.283					

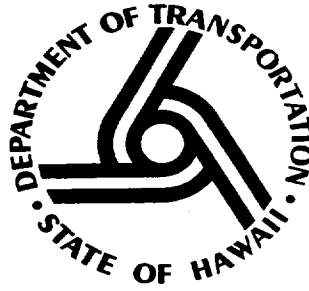
(plus accrued interest from April 1, 2002)

#### Series B of 2002 (AMT)

<u>Maturity Date (July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>Maturity Date (July 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>
2002	\$240,000	3.00%	2.35%	100.141	2008	\$890,000	4.70%	4.78%	99.566
2003	715,000	3.00	2.90	100.116	2009	525,000	4.75	4.92	98.969
2004	735,000	3.50	3.43	100.145	2010	555,000	5.00	5.00	100.000
2005	770,000	4.00	3.95	100.145	2011	575,000	5.00	5.06	99.554
2006	800,000	4.25	4.30	99.803	2012	605,000	5.00	5.12	99.046
2007	845,000	4.50	4.60	99.533					

\$9,405,000, 5.50% Term Bonds due July 1, 2019, Yield 5.58%

(plus accrued interest from April 1, 2002)



## STATE OF HAWAII

Benjamin J. Cayetano, Governor  
Mazie Hirono, Lieutenant Governor

### DEPARTMENT OF TRANSPORTATION

Brian K. Minaai, Director

Deputy Director  
Deputy Director  
Acting Administrator, Airports Division  
Acting Administrator, Harbors Division  
Administrator, Highways Division

Jadine Y. Urasaki  
Jean L. Oshita  
Roy Sakata  
Jadine Y. Urasaki  
Glenn M. Yasui

### COMMISSION ON TRANSPORTATION

Willy Crozier, Chair  
Lester Fushikoshi, Vice Chair  
Walter Y. Arakaki  
Kazu Hayashida  
Rudy Miranda

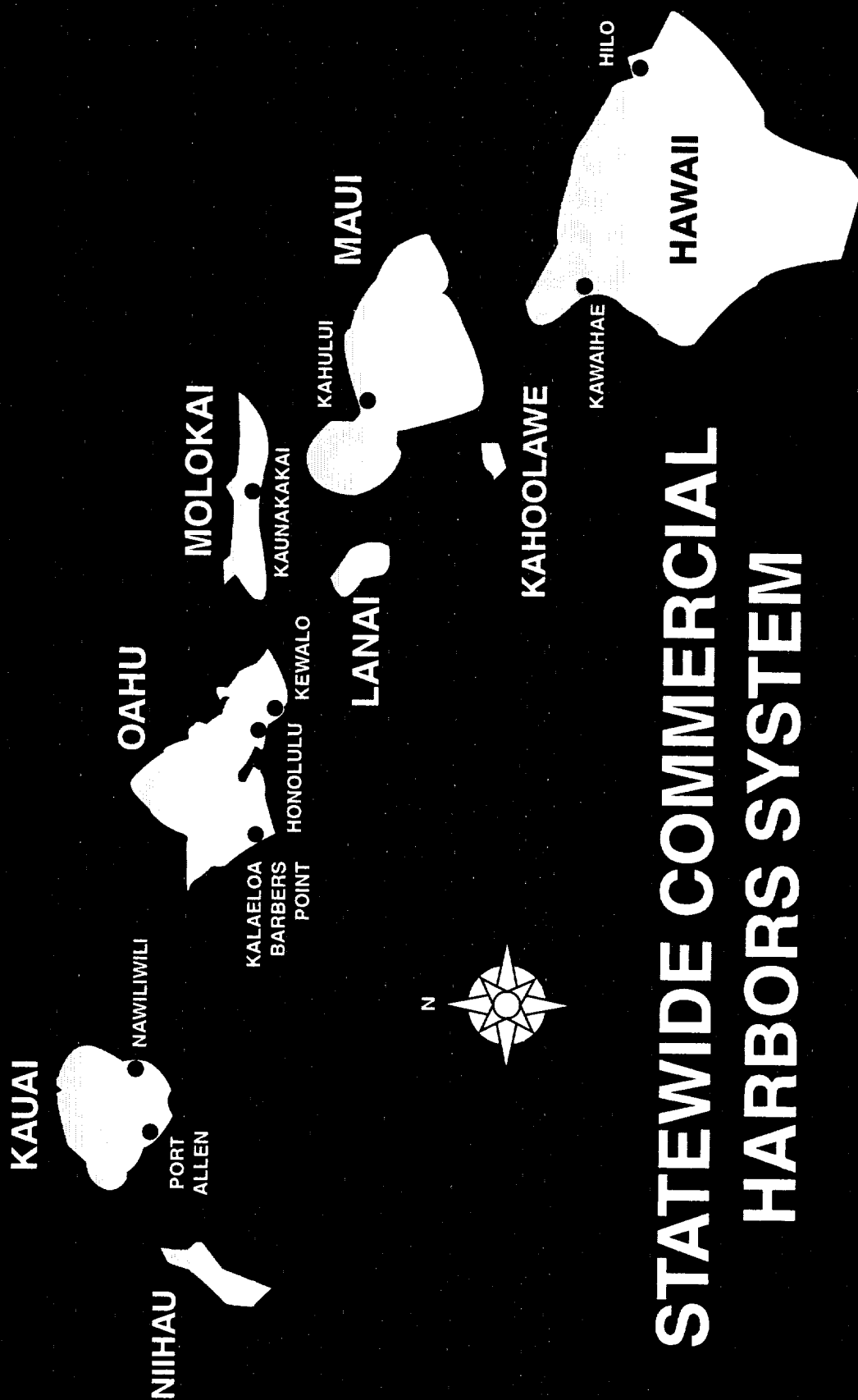
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Honolulu, Hawaii

**Bond Counsel**  
Pillsbury Winthrop LLP

**Verification Agent**  
Causey Demgen & Moore Inc.  
Denver, Colorado



The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information. The Underwriters have provided the following sentence for inclusion in this official statement. The Underwriters have reviewed the information in this official statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Series 2002 Bonds in any state to any person to whom it is unlawful to make such offer in such state. No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2002 Bonds, and, if given or made, such information or representations must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

**THE SERIES 2002 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2002 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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**OFFICIAL STATEMENT**  
**\$24,420,000**  
**STATE OF HAWAII**  
**HARBOR SYSTEM REVENUE BONDS**  
**\$7,760,000 SERIES A OF 2002 (NON-AMT) and \$16,660,000 SERIES B OF 2002 (AMT)**

**INTRODUCTION**

This Official Statement, which includes the cover and appendices (the "Official Statement"), provides information with respect to the issuance and sale of \$7,760,000 principal amount of State of Hawaii Harbor System Revenue Bonds, Series A of 2002 (the "Series 2002A Bonds") and \$16,660,000 principal amount of State of Hawaii Harbor System Revenue Bonds, Series B of 2002 (the "Series 2002B Bonds" and, together with the Series 2002A Bonds, the "Series 2002 Bonds"). Capitalized terms not otherwise defined in this Official Statement shall have the respective meanings given to such terms in Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Definitions of Certain Terms."

The State of Hawaii (the "State") will issue the Series 2002 Bonds pursuant to the Constitution, the laws of the State and the Certificate of the Director of Transportation of the State, dated as of March 1, 1997, as heretofore supplemented and as supplemented by the supplemental certificate providing for the issuance of the Series 2002 Bonds (the "Third Supplemental Certificate") (as so supplemented and as hereafter supplemented and amended, the "Certificate"). See "THE SERIES 2002 BONDS" for a description of the Series 2002 Bonds. All State of Hawaii Harbor System Revenue Bonds issued pursuant to the Certificate, including \$54,745,000 of Harbor System Revenue Bonds, Series of 1997, and \$74,095,000 of Harbor System Revenue Bonds, Series A of 2000, currently outstanding, the Series 2002 Bonds and any additional parity bonds which may be issued in the future under the Certificate, are collectively referred to herein as the "Bonds."

The Series 2002 Bonds are being issued (1) to provide for the refunding of certain outstanding bonds of the State, as described below under "PLAN OF FINANCING - Refunding of the Refunded Bonds," and (2) to provide for the costs of issuance of such Bonds and to provide reserves for the payment thereof.

The State has previously issued Harbor Revenue Bonds under and pursuant to a Certificate of the Director of Transportation dated as of November 15, 1990 (as amended and supplemented, the "1990 Certificate"), which have a lien against the Revenues of the Harbor System that is prior and paramount to that of the Bonds issued under and pursuant to the Certificate, including the Series 2002 Bonds. Harbor Revenue Bonds issued under the 1990 Certificate (hereinafter referred to as the "1990 Certificate Harbor Revenue Bonds") remain outstanding in the aggregate principal amount of \$86,835,000. As discussed below, a portion of the proceeds of the Series 2002 Bonds will be used to refund \$23,495,000 of such outstanding 1990 Certificate Harbor Revenue Bonds on July 1, 2002, and \$1,595,000 of such Harbor Revenue Bonds will mature on such date, after which there will remain outstanding \$58,535,000 aggregate principal amount of 1990 Certificate Harbor Revenue Bonds. The Department has covenanted that no further bonds will be issued under the 1990 Certificate.

The Bonds, including the Series 2002 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Net Revenues of the Harbor System. Net Revenues consist of the Revenues of the Harbor System remaining after payment of the costs of operating and maintaining the Harbor System and payment of the annual debt service on outstanding 1990 Certificate Harbor Revenue Bonds. The Series 2002 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision of the State is pledged to the payment of or as security for the Series 2002 Bonds. All Bonds, including the Series 2002 Bonds, are and will be secured equally and ratably by the Net Revenues. See "SECURITY FOR THE BONDS" and "SOURCES OF REVENUES" for a description of the security for the Bonds and sources of Revenues.

Payment of principal of and interest on the Series 2002 Bonds will be guaranteed by a municipal bond insurance policy (the "Policy") to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the Series 2002 Bonds. Additionally, the Insurer will issue a municipal bond debt service reserve insurance policy (the "Reserve Policy") simultaneously with the delivery of the Series 2002 Bonds in an amount equal to the Reserve Requirement for the Series 2002 Bonds pursuant to the Certificate. See "INSURANCE FOR

THE BONDS" and Appendix F – "FORM OF POLICY" for additional information about the Insurer, the Policy and the Reserve Policy.

The State is an archipelago located over 2,000 miles from the nearest continent. The State imports much of the food and nearly all of the building materials, manufactured goods, clothing and energy products used in the State by its 1.2 million residents and eight million annual visitors. Nearly all goods imported into, exported from and sent between the islands of the State are shipped through the ports comprising the Harbor System, other than crude oil that is shipped through privately-owned offshore mooring and fuel shipment facilities near the Kalaeloa Barbers Point Harbor. See "THE HARBOR SYSTEM - Summary of Harbor System Operations". There are no economically viable alternatives to transport bulk goods to, from and among the islands. Therefore, the Harbor System is essential to the maintenance of the State's economy.

The Harbor System is the statewide system of commercial harbors comprised of ten harbors. See "THE HARBOR SYSTEM". The Harbor System is owned by the State and is operated as a single statewide system for management and financial purposes on behalf of the State by the Department of Transportation of the State (the "Department"). See "DEPARTMENT OF TRANSPORTATION". The Department is obligated to impose and collect rates and charges for the Harbor System services and properties to generate Revenues sufficient to pay debt service on the Bonds and certain outstanding obligations of the Department, to pay the costs of operation, maintenance and repair of the Harbor System and to comply with the terms of the Certificate. See "SECURITY FOR THE BONDS - Rates and Charges".

The cover page and this Introduction contain certain information for general reference only. They are not intended to be a summary of the Series 2002 Bonds. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the Department, the Harbor System, the Series 2002 Bonds, the security for the Series 2002 Bonds and certain provisions of the Certificate. All references to agreements and documents are qualified in their entirety by the definitive forms of such agreements and documents. All references to the Certificate and to the Series 2002 Bonds are qualified by the definitive forms of such Certificate and Series 2002 Bonds. Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated.

## **PLAN OF FINANCING**

### **Authority for Issuance**

Article VII, Section 12 of the State Constitution and Part III, Chapter 39, Hawaii Revised Statutes ("HRS"), as amended (collectively, the "General Revenue Bond Law"), permit the issuance of revenue bonds of the State payable from and secured by the Revenues upon the approval of a majority of the members of each house of the Legislature and pursuant to a certificate of the Director of the Department (the "Director"), which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law limits the maximum maturity of revenue bonds and also sets forth provisions for the sale, method of execution and other details of all revenue bonds. The Legislature from time to time enacts laws (including the general appropriations acts) authorizing the issuance of revenue bonds (without fixing any particular details), defining the purposes for which the bonds are to be issued and specifying the amount of the proceeds of such bonds which may be applied to such purposes; provided that the Department, with the approval of the Governor, may issue refunding bonds without further authorization of the Legislature. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which, under State law, constitutes the security document pursuant to which all Bonds are issued and secured. The Certificate provides the terms of the Bonds including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department. The Series 2002 Bonds are being issued pursuant to the Certificate and the General Revenue Bond Law.

### **Refunding of the Refunded Bonds**

Upon delivery of the Series 2002 Bonds, the State and Bank of Hawaii, acting through its Pacific Century Trust division, as refunding trustee (the "Trustee") will enter into a Refunding Trust Agreement (the "Refunding

Trust Agreement”) to provide for the refunding of certain of the outstanding 1990 Certificate Harbor Revenue Bonds in the amount of \$23,495,000 (the “Refunded Bonds”) on July 1, 2002. The Refunded Bonds to be redeemed will be irrevocably designated for redemption on the applicable date therefor, and provisions will be made in the Refunding Trust Agreement for the giving of the notice of such redemption. The Refunded Bonds may not be redeemed other than as described above.

The Refunding Trust Agreement creates an irrevocable trust fund (the “Trust Fund”) which is to be held by the Trustee, and the monies and securities held therein are to be applied to the payment of principal of and premium, if any, and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Series 2002 Bonds, the Department will deposit, or cause to be deposited, with the Trustee, a portion of the proceeds derived from the sale of the Series 2002 Bonds. Moneys deposited in the Trust Fund will be invested, at the direction of the State, in noncallable direct obligations of the United States (the “Trust Securities”) which, together with cash held uninvested in the Trust Fund, will be sufficient, without reinvestment, and will be applied (i) to pay the interest on the Refunded Bonds due on and prior to the redemption date for the Refunded Bonds; and (ii) to redeem the Refunded Bonds on the redemption date at the redemption price thereof. The maturing principal of and interest on the Trust Securities and cash held in the Trust Fund, in the amounts needed to pay the principal of, interest on, and redemption premium with respect to, the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Trust Securities will be purchased from the Treasury Department of the United States of America at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, not to exceed the applicable yield permitted by such provisions. See “ESCROW VERIFICATION.”

The following table sets forth information with respect to such Refunded Bonds:

Series 1992 Harbor Revenue Bonds

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
07/01/2003	5.800%	\$1,100,000	07/01/2002	102.000
07/01/2008*	6.200	6,555,000	07/01/2002	102.000

\*denotes term bond.

Series 1992 Harbor Revenue Bonds (AMT)

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
07/01/2003	6.200%	\$ 595,000	07/01/2002	102.000
07/01/2004	6.300	630,000	07/01/2002	102.000
07/01/2005	6.400	680,000	07/01/2002	102.000
07/01/2006	6.400	725,000	07/01/2002	102.000
07/01/2007	6.400	780,000	07/01/2002	102.000
07/01/2012*	6.500	2,970,000	07/01/2002	102.000
07/01/2019*	6.500	9,460,000	07/01/2002	102.000

\*denotes term bond.

## Sources and Application of Funds

The following table shows the estimated sources and application of moneys realized by the State upon the sale of the Series 2002 Bonds (exclusive of accrued interest):

### Sources:

Principal Amount of Series 2002 Bonds	\$24,420,000.00
Net Original Issue Premium	128,501.15
Available Funds on Deposit in the Refunded Bonds Payment Account	498,193.36
<b>Total</b>	<b><u>\$25,046,694.51</u></b>

### Application:

Deposit to Refunding Bonds Escrow Fund	\$24,614,863.51
Costs of Issuance <sup>(1)</sup>	431,831.00
<b>Total</b>	<b><u>\$25,046,694.51</u></b>

<sup>(1)</sup> Includes underwriter's discount, bond insurance premium and debt service reserve surety policy premium.

## THE SERIES 2002 BONDS

### General

The Series 2002 Bonds will be issued in fully registered form without coupons, will be in the denomination of \$5,000 or any integral multiple of \$5,000, will bear interest from their respective dates at the rates per annum set forth on the cover of this Official Statement, and will mature on the dates and in the principal amounts set forth on the cover of this Official Statement. The Series 2002 Bonds will be dated as of April 1, 2002, and will bear interest payable on January 1 and July 1 of each year, commencing July 1, 2002. Interest on the Series 2002 Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

The Series 2002 Bonds, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Series 2002 Bonds will be made in book-entry form only (the "Book-Entry System"), in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds. Principal of and interest on the Series 2002 Bonds will be paid by the Director of Finance of the State (the "Director of Finance") to DTC, which will in turn remit such principal and interest to its participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Series 2002 Bonds, as described herein. The Series 2002 Bonds may be transferred or exchanged in the manner described in such Bonds and as referenced in related proceedings of the State. See "THE SERIES 2002 BONDS - Book-Entry System", below.

The books of registry will be kept and maintained by the Director of Finance. Interest on the Series 2002 Bonds will cease to accrue on the respective maturity dates thereof, and a holder will only be entitled to receive the principal amount and accrued interest on each Series 2002 Bond to such maturity dates. The State may deem and treat the person in whose name a Series 2002 Bond is registered upon the books of registry as the absolute owner of such Bond for the purpose of receiving payment of the principal thereof, premium, if any, and interest thereon, and for all other purposes.

### Redemption

**Optional Redemption.** The Series 2002A Bonds are not subject to redemption at the option of the State. The Series 2002B Bonds maturing after July 1, 2012 are subject to redemption at the option of the State on and after July 1, 2012 as a whole or in part at any time, from moneys other than moneys required to be credited as Sinking Fund Installments to the Harbor Principal Account, at 100% of the principal amount thereof plus accrued interest, if any, to the date fixed for redemption.

**Harbor Principal Account Redemption.** The Series 2002 Bonds maturing July 1, 2019 are subject to redemption from Sinking Fund Installments in the Harbor Principal Account in part (by lot) at a redemption price equal to the principal amount thereof plus accrued interest beginning on July 1, 2019, and on any interest payment date thereafter. In order to provide for the retirement of the Series 2002 Bonds maturing July 1, 2019, monthly credits are required to be made to the Harbor Principal Account so that the total of such credits made in a fiscal year would on the first business day of the month preceding the next ensuing July 1 be equal to the respective amounts specified opposite such next ensuing July 1, as follows:

**SERIES 2002 BONDS MATURING JULY 1, 2019**

<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2013	\$610,000	2017	\$ 855,000
2014	620,000	2018	2,950,000
2015	615,000	2019*	3,120,000
2016	635,000		

\* maturity.

**Notice of Redemption; Selection of Bonds.** The Department shall cause notice of redemption to be mailed not less than 30 days prior to the redemption date, by registered or certified mail, to each registered holder of a Series 2002 Bond to be redeemed at its address appearing on the books of registry maintained by the Director of Finance. At the time notice of any optional or sinking fund redemption is given to holders of the Series 2002 Bonds, the Department may also give notice to certain national information services selected by the Department and must also so notify certain bond information repositories. See "CONTINUING DISCLOSURE" and Appendix D.

If less than all of the Series 2002 Bonds of a series and maturity are to be redeemed, the Bonds of such series and maturity to be redeemed shall be selected by lot. See "THE SERIES 2002 BONDS - Book-Entry System" for a discussion of the notice of redemption to be given to Beneficial Owners (as therein defined for the purposes of such discussion) and the manner of selection of the Series 2002 Bonds to be redeemed when the Book-Entry System for such Bonds is in effect.

**Effect of Redemption.** If a Series 2002 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient moneys available for the payment of the redemption price and interest to accrue to the redemption date on such Series 2002 Bond are held for such purpose by the Director of Finance, such Series 2002 Bond so called for redemption shall become due and payable, and interest on such Bond shall cease to accrue, on the redemption date designated in such notice.

Upon surrender of any Series 2002 Bond to be redeemed in part only, the Department will execute and deliver to the holder a new Bond (or Bonds) of the applicable series representing the unredeemed principal amount of the Bond surrendered.

**Book-Entry System**

**Information on DTC and Book-Entry System.** Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources the Department and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Department or the Underwriters.

DTC will act as security depository for the Series 2002 Bonds. The Series 2002 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2002 Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

**DTC and Its Participants.** DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

**Purchase of Ownership Interests.** Purchases of the Series 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2002 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Series 2002 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 2002 Bonds, except in the event that use of the Book-Entry System for such Series 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2002 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

**Notices and Other Communications.** Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulation requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2002 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

**Voting Rights.** Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Principal and Interest Payments.** Principal and interest payments on the Series 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or the Department, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the State or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede and Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Director of Finance, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

**Discontinuance of Book-Entry System.** DTC may discontinue providing its services as depository with respect to the Series 2002 Bonds at any time by giving reasonable notice to the State or the Department. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2002 Bond certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2002 Bond certificates will be printed and delivered.

**DTC and Book-Entry Information.** The information concerning DTC and DTC's Book-Entry System contained in this Official Statement has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Department or the Underwriters.

**The State, the Department and the Underwriters will have no responsibility for or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners, nor can or do they give any assurances with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, or (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal or redemption price of or interest on the Bonds, or (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the Department to DTC), or (iv) the selection by DTC of any Participant to receive payment in the event of a partial redemption of the Series 2002 Bonds, or (v) any consent given or other action taken by DTC as Owner of the Bond, or (vi) any other event or purpose. The State, the Department and the Underwriters are not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

## SECURITY FOR THE BONDS

### General

The Bonds, including the Series 2002 Bonds, are special limited obligations of the State, payable solely from and secured solely by the Harbor Revenue Special Fund, into which the State is obligated to deposit Revenues, as more fully set forth below and in the Certificate. Such deposits from Revenues shall be made after and subordinate to the payment of the expenses of operation and maintenance of the properties constituting the Harbor System, and after and subordinate to the payment of the 1990 Certificate Harbor Revenue Bonds. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE."

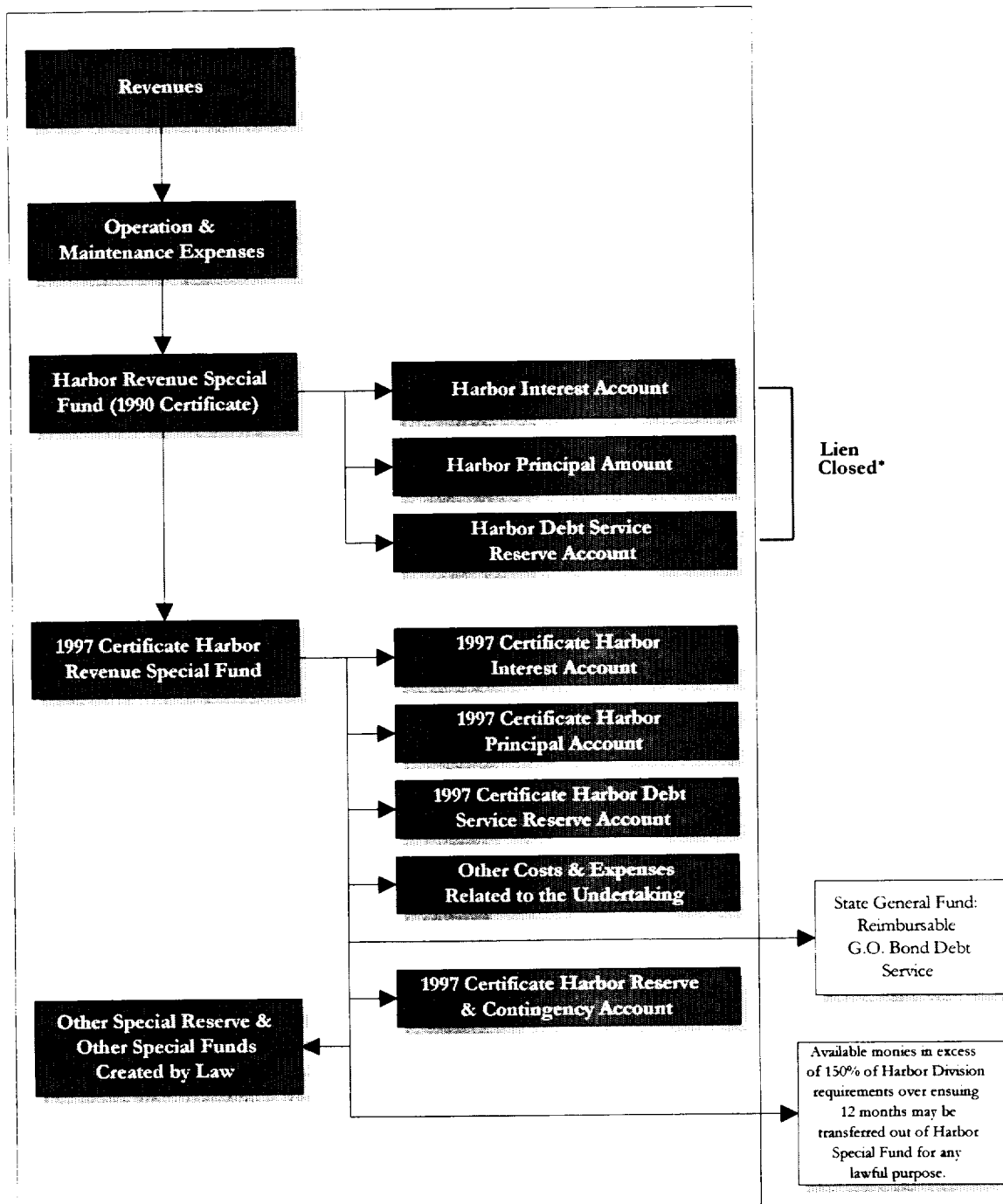
**The Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of neither the State nor any political subdivision thereof is pledged to the payment of or as security for the Bonds. Neither the real property nor the improvements comprising the Harbor System have been pledged or mortgaged to secure payment of the Bonds.**

State law creates four special funds in the Treasury of the State, designated as the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund and the 1997 Certificate Harbor Revenue

Special Fund. By operation of the Certificate, the Capital Improvement Special Fund and the Harbor Revenue Special Fund have been consolidated into the Harbor Special Fund and all references in the Certificate to the Harbor Revenue Special Fund are deemed to refer to the Harbor Special Fund. Pursuant to the Certificate, all Revenues are required to be deposited in the Harbor Special Fund. The Certificate provides that after the payment of the operation and maintenance costs of the Harbor System, the moneys on deposit in the Harbor Special Fund shall initially be used in the order of priority established by the 1990 Certificate. Among other things, the 1990 Certificate provides for payment of the debt service on the 1990 Certificate Harbor Revenue Bonds. After payment of debt service on the 1990 Certificate Harbor Revenue Bonds (so long as any such bonds remain outstanding), the Certificate provides that Revenues shall be deposited in the 1997 Certificate Harbor Revenue Special Fund, and that amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund shall be used for certain specified purposes and in a specific order of priority. Those purposes include the payment of the debt service on the Bonds, which is second in priority to the payment of operation and maintenance expenses.

Subsequent to payment of debt service on the Bonds, the Certificate provides that the Revenues shall be applied for various other purposes, including the reimbursement to the State general fund for Reimbursable General Obligation Bonds. See "INDEBTEDNESS - Reimbursable General Obligation Bonds." Table 1 provides a graphical representation of the flow of Revenues from one fund to another, and the application of the Revenues. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Allocation and Application of Revenues" for a further description of this flow of Revenues.

**TABLE 1  
FLOW AND APPLICATION OF REVENUES**



*\*Obligations remain outstanding which are payable prior to the Bonds.*

The Department is obligated to impose rates and charges sufficient to pay the costs of operation and maintenance, including reserves therefor, of the Harbor System, to pay when due the debt service, and to maintain the debt service reserves for, the 1990 Certificate Harbor Revenue Bonds, and to satisfy the requirements of the Certificate, including the requirement that the deposit into the 1997 Certificate Harbor Revenue Special Fund be sufficient to pay the debt service on the Bonds and for certain other purposes. See “- Rates and Charges” below.

Pursuant to Section 266-19, HRS, the Director may transfer from the Harbor Special Fund all or any portion of available moneys on deposit in such fund determined by the Director to be in excess of 150% of the requirements for the Harbor Special Fund for the ensuing 12 months. The Director may transfer such excess moneys to the general revenues of the State or to any other fund under the control of the Department, as permitted by Section 37-53, HRS. The debt service requirements on the 1990 Certificate Harbor Revenue Bonds, operation and maintenance costs of the Harbor System, and debt service requirements on the Bonds are requirements to be considered by the Director before making any such transfer. See Appendix C - “SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Allocation and Application of Revenues.”

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. The State has waived by statute its immunity from contractual claims. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or officials of the State to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness.

### **Rates and Charges**

In the Certificate, the Department has covenanted to prescribe and collect rates, rents, fees or charges for the services, facilities and commodities of the Undertaking, and to revise such rates, rents, fees and charges from time to time so that the Undertaking shall be and always remain self-supporting. Under the Certificate, the Department agrees that such rates, rents, fees or charges will:

(a) be such as will produce Revenues at least sufficient (i) to pay the costs of operation, maintenance and repair of the Harbor System (including reserves therefor) and the expenses of the Department in connection therewith; (ii) to pay when due all 1990 Certificate Harbor Revenue Bonds, the interest thereon and debt service reserves therefor; (iii) to pay into the 1997 Certificate Harbor Revenue Special Fund for credit to each account therein the amounts required by the Certificate; (iv) to reimburse the general fund of the State for all bond requirements for reimbursable general obligation bonds issued for the Harbor System; and (v) to carry out the provisions of the Certificate; and

(b) at all times and in any and all events, yield Aggregate Net Revenues (as defined in the Certificate) for the next 12-month period which, (i) together with funds on deposit in the 1997 Harbor Reserve and Contingency Account, shall be at least equal to 1.25 times the Aggregate Certificate Bond Service on all Bonds and 1990 Certificate Harbor Revenue Bonds for such 12 months, and (ii) without consideration of other funds, shall be at least equal to 1.00 times the Aggregate Certificate Bond Service for such 12 months.

The foregoing agreement is referred to herein as the “Rate Covenant”.

### **Harbor Debt Service Reserve Account**

In order to provide a reserve for the payment of the principal of, premium, if any, and interest on the Bonds, the Certificate creates a 1997 Certificate Harbor Debt Service Reserve Account in the 1997 Certificate Harbor Revenue Special Fund. Subject to provisions granting the Department the option to fund the 1997

Certificate Harbor Debt Service Reserve Account from Revenues upon the issuance of Bonds, the Certificate requires that moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account be maintained in an amount equal (subject to the maximum amount permitted under the Internal Revenue Code of 1986, as amended) to the maximum Aggregate Bond Service for any Bond Year in which any Bonds are outstanding (the "Reserve Requirement"). In lieu of crediting moneys to the 1997 Certificate Harbor Debt Service Reserve Account, the Certificate permits the Department to obtain a surety bond or an insurance policy payable to the Department for the benefit of bondholders of a Series of Bonds or a letter of credit, in each case in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the 1997 Certificate Harbor Debt Service Reserve Account. The Department intends to use the Reserve Policy in lieu of depositing moneys into the 1997 Certificate Harbor Debt Service Reserve Account to satisfy the Reserve Requirement applicable under the Certificate to the Series 2002 Bonds. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - 1997 Certificate Harbor Interest Account," "1997 Certificate Harbor Principal Account," "1997 Certificate Harbor Debt Service Reserve Account" and "1997 Certificate Harbor Reserve and Contingency Account."

### **Additional Indebtedness**

The Certificate permits the issuance of Additional Bonds payable from and secured by the 1997 Certificate Harbor Revenue Special Fund on a parity with the Series 2002 Bonds for the purpose of paying or reimbursing the cost of acquiring or constructing properties that constitute part of the Undertaking or adding to, reconstructing, improving, replacing or expanding the Harbor System so long as:

(a) no default in the payment of any Bond or 1990 Certificate Harbor Revenue Bond exists, no deficiency exists in the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund, and the Rate Covenant is satisfied; and

(b) (i) the Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the preceding eighteen calendar month period, as certified by the Independent Public Accountant, are at least equal to 1.25 times the Aggregate Certificate Bond Service (as defined in Appendix C) on all Bonds and 1990 Certificate Harbor Revenue Bonds for any future fiscal year, or

(ii) (1) the Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the preceding eighteen calendar month period, as certified by the Independent Public Accountant, are at least equal to 1.00 times the Aggregate Certificate Bond Service on all Bonds and 1990 Certificate Harbor Revenue Bonds for any future fiscal year, and (2) the sum of such Aggregate Net Revenues and the Anticipated Net Revenue Increase, if any, is not less than 1.25 times such Aggregate Certificate Bond Service for any future fiscal year. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Additional Bonds and Refunding Bonds."

If, prior to the delivery of Additional Bonds, the Department has imposed increases in its schedule of rentals, rates, fees and charges, which increases are or shall be in effect upon the delivery of such Additional Bonds, the Harbor Consultant may adjust its estimates to reflect such increases for the purposes of making the determination required in clause (b) above.

The Department expects to issue Additional Bonds to finance a portion of future Capital Improvements Programs. See "THE HARBOR SYSTEM - Capital Improvements Program."

The Certificate also permits the issuance of Refunding Bonds payable from and secured by the 1997 Certificate Harbor Revenue Special Fund on a parity with the Series 2002 Bonds to refund Bonds or 1990 Certificate Harbor Revenue Bonds if (a) no default exists in the payment of any Bond or 1990 Certificate Harbor Revenue Bond, no deficiencies exist in the Harbor Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund, the Rate Covenant is satisfied, and there does not exist an "Event of Default" (as described in Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Events of Default") or a condition which upon the passage of time would constitute such an "Event of Default," and (b) the aggregate Bond Service for the Refunding Bonds after such refunding shall be less than the aggregate Bond

Service for the refunded bonds had such refunding not occurred. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Additional Bonds and Refunding Bonds."

Nothing in the Certificate prohibits the Department from incurring additional indebtedness with a lien on Net Revenues which is subordinate to that of the Bonds.

### **The Policy and the Reserve Policy**

The Insurer will issue, simultaneously with the delivery of the Series 2002 Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Series 2002 Bonds. Additionally, the Insurer will issue, simultaneously with the delivery of the Series 2002 Bonds, a debt service reserve insurance policy satisfying the Reserve Requirement for the Series 2002 Bonds pursuant to the Certificate, which will be used in lieu of the deposit of moneys in the Harbor Debt Service Reserve Account. See "INSURANCE FOR THE BONDS" and Appendix F - "FORM OF POLICY."

The Department and the State have agreed, in connection with the issuance of the Policy and the Reserve Policy by the Insurer, that any amendment or supplement to the Certificate, and any acceleration of debt service on the Series 2002 Bonds upon the occurrence and continuation of an event of default under the Certificate, which cannot become effective without the prior written consent of the holders of such Bonds, shall also require the prior written consent of the Insurer.

There follows under the caption "INSURANCE FOR THE BONDS" below certain information concerning the Insurer and the terms of the Policy and the Reserve Policy. Information with respect to the Insurer and its Policy and Reserve Policy has been supplied by the Insurer. No representation is made by the State or the Underwriters as to the accuracy or adequacy of such information subsequent to the date hereof. The Policy and Reserve Policy do not constitute a part of the contract between the State and the holders of the Bonds evidenced by the Certificate and the Bonds. Except for the payment of the premium on the Policy and Reserve Policy, the State has no responsibility with respect to such insurance in any way, including maintenance, enforcement or collection thereof.

## **INSURANCE FOR THE BONDS**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2002 Bonds effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Director of Finance, as Paying Agent (the "Paying Agent"). The insurance will extend for the term of the Series 2002 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2002 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2002 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2002 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2002 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on an Series 2002 Bonds which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been

deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2002 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2002 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2002 Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2002 Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

#### **Ambac Assurance Surety Bond**

The Certificate requires the establishment of the Harbor Debt Service Reserve Account in an amount equal to the Reserve Requirement. The Certificate authorizes the Department to obtain a Surety Bond in place of fully funding the Harbor Debt Service Reserve Account. Accordingly, application has been made to Ambac Assurance for the issuance of a Surety Bond for the purpose of funding a portion of the Harbor Debt Service Reserve Account. The Series 2002 Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 2002 Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Paying Agent certifying that provision for the payment of principal or interest on the Series 2002 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Series 2002 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Department is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Department is subordinate to the Department's obligations with respect to the Series 2002 Bonds.

In the event the amount on deposit, or credited to the Harbor Debt Service Reserve Account, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Harbor Debt Service Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Harbor Debt Service Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under any letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata

basis to fund the insufficiency. The Certificate provides that the Harbor Debt Service Reserve Account shall be replenished as described in Appendix C under "Allocation and Application of Revenues – 1997 Certificate Harbor Debt Service Reserve Account."

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

#### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,303,000,000 (unaudited) and statutory capital of approximately \$3,240,000,000 (unaudited) as of December 31, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2002 Bonds.

Ambac Assurance makes no representation regarding the Series 2002 Bonds or the advisability of investing in the Series 2002 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "INSURANCE FOR THE BONDS."

#### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional office at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

- 2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;
- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
- 7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
- 8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
- 9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001;
- 10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001;
- 11) The Company's Current Report on Form 8-K dated December 3, 2001 and filed on December 4, 2001; and
- 12) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

## **SOURCES OF REVENUES**

### **General**

State law, the Certificate and the 1990 Certificate require the State to operate the Harbor System on a self-supporting basis. The Certificate and the 1990 Certificate require the Department to prescribe and collect rates, rentals, fees and charges for the use of and services provided by the Harbor System to generate Revenues which will be sufficient to pay the principal of and interest on all Bonds and 1990 Certificate Harbor Revenue Bonds, to pay the costs of operation, maintenance and repair of the Harbor System, to reimburse the general fund of the State for all reimbursable general obligation bonds issued by the State for the Harbor System and to satisfy other provisions of the Certificate. The Harbor System derives its Revenues from three major sources: services revenues, rentals income and other operating revenues. See "SECURITY FOR THE BONDS - Rates and Charges". The services revenues, rentals income and other operating revenues described below are obtained from the annual audited financial statements of the Harbor System. The most recent fiscal year for which such audited financial information is available is the year ending June 30, 2001. However, unaudited financial information prepared on a modified cash basis for the six months ending December 31, 2001 and 2000 is presented in certain Tables. Comparable financial information is not available for any interim period since December 31, 2001. Also see "Other Matters Potentially Affecting Net Revenues." below.

### **Services Revenues**

**General.** Services revenues represent the largest source of operating revenues for the Harbor System. Services revenues were \$37.3 million, \$39.9 million and \$42.1 million in the fiscal years ending June 30, 1999,

June 30, 2000 and June 30, 2001, respectively, and accounted for 61%, 64% and 63% of operating revenues in such fiscal years. Services revenues are derived from tariffs assessed on the activities of ships and the handling of cargo and include wharfage charges, dockage fees, port entry fees, demurrage, mooring charges and fees for other services.

The Department establishes tariff schedules for wharfage charges, dockage fees, demurrage, port entry fees, mooring charges and other tariffs that comprise services revenues pursuant to the Department's rule-making authority. Tariffs relating to "overseas" voyages and cargoes generally are greater than those relating to "inter-island" voyages or cargoes. An overseas voyage is defined as a voyage between a Hawaii port and a foreign or United States mainland port. An inter-island voyage is defined as a voyage between the eight major islands within the State.

The current tariff rates have been in effect since April 1, 1997. The Department reviews and amends its tariff schedules periodically. To amend the tariff schedules, the Department must comply with the procedure set forth in Chapter 91, HRS, which requires that the Department hold a public hearing after submitting a draft of each proposed amendment to the State's Attorney General and the Governor for preliminary approval. If the Department determines to adopt the amendment, it is the State's policy to obtain the State's Attorney General's approval of the amendment before submitting the amendment to the Governor for approval pursuant to Chapter 91 HRS. If approved by the Governor, the amendment becomes effective ten days after it is filed with the Lieutenant Governor.

**Wharfage Charges.** Wharfage charges represent the largest component of services revenues. Wharfage charges accounted for \$30.0 million, \$32.4 million and \$34.0 million of operating revenues in the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, respectively, and comprised approximately 80% of total services revenues in each of such fiscal years.

Wharfage charges are assessed against all shipments of cargo conveyed over, on or under any pier, wharf or terminal facility or to or from any vessel at such a facility of the Harbor System. Wharfage rates are established by type of cargo with differing rate categories for incoming foreign overseas shipments (from a foreign port), incoming domestic overseas shipments (from the mainland United States), outgoing overseas shipments and inter-island shipments. Nearly all non-bulk cargo is shipped through the Harbor System in containers, with respect to which wharfage is determined by the length of the container. The following table 2 presents current wharfage rates for selected types of cargo.

**TABLE 2**  
**WHARFAGE CHARGES FOR SELECTED CATEGORIES OF CARGO**  
**(Rates Effective on and After April 1, 1997)**

<u>Category</u>	<u>Rate</u>
CONTAINERS (per linear foot)	
Incoming Foreign Overseas	\$ 2.50
Incoming Domestic Overseas	1.93
Outgoing Overseas	1.31
Inter-island	1.31
AUTOMOBILES (per vehicle)	
Incoming Foreign Overseas	\$23.37
Incoming Domestic Overseas	17.50
Outgoing Overseas	17.50
Inter-island	10.50
LUMBER (per thousand board feet)	
Incoming Domestic Overseas	\$ 3.31
GENERAL MERCHANDISE (per ton)	
Incoming Foreign Overseas	\$ 2.87
Incoming Domestic Overseas	2.12
Outgoing Overseas	2.12
Inter-island	1.37
FUEL OIL (per barrel)	
Incoming, State-owned pipeline	\$ 0.15
Incoming, privately-owned pipeline <sup>1</sup>	0.075
PASSENGER FEES (per passenger)	
Embarking/Disembarking	\$ 2.50
In transit	1.85
WATER (per thousand gallons)	\$ 2.1875

<sup>1</sup> Located at facilities of the Harbor System.

The Department collects wharfage on a self-reporting basis. Each of the shipping lines that uses the ports comprising the Harbor System is responsible for reporting to the Department the wharfage owed for each voyage and submitting payment of such wharfage within 45 days after the completion of handling cargo over state wharves. The Department conducts random audits to verify the wharfage paid by the shipping lines that use the Harbor System. During the last fiscal year, the Department performed 13 audits of selected wharfage reports, involving 9 shipping lines and shipping agents, which represent the shipping lines. The audits revealed no major deficiencies. A wharfage report is generated for each voyage for each of the four rate categories of wharfage applicable to the voyage.

**Dockage Fees.** Dockage fees represent the second largest component of services revenues. Dockage fees accounted for \$3.6 million, \$ 3.8 million and \$ 4.1 million of operating revenues in the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, respectively, and comprised approximately 10% of services revenues in each of such fiscal years.

Dockage fees are assessed against all vessels using a dock or other State-owned structure in a port in the Harbor System at rates per 12 hours based on the length of the vessel. The dockage fee assessed in connection with an inter-island voyage is approximately 60% of the dockage fee assessed in connection with an overseas voyage. Current dockage fees assessed in connection with an inter-island voyage range from \$16 for vessels with a length of 65 feet, but less than 75 feet to \$1,725 for vessels with a length of 850 to 900 feet, and the current dockage fees assessed in connection with an overseas voyage range from \$31 for vessels with a length of 65 feet or less to \$2,875 for vessels with a length of 900 feet or more.

Dockage fees in connection with inter-island voyages are assessed on a self-reporting basis. Each of the shipping lines that uses the ports comprising the Harbor System generally is responsible for reporting to the Department the dockage owed for each inter-island voyage, which is payable within 30 days. Dockage fees in connection with overseas voyages are assessed based upon vessel logs that are maintained by each district of the Harbor System and are payable 30 days from date of the invoice.

**Demurrage.** Demurrage, which includes fees assessed for both demurrage (the charge assessed against cargo remaining on a wharf, pier or terminal area after expiration of the allotted time) and storage, accounted for approximately \$1.3 million, \$1.5 million and \$1.8 million of operating revenues in each of the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, and comprised approximately 3%, 4% and 4% of services revenues in such fiscal years, respectively. Storage is assessed against cargo remaining on a wharf, pier or terminal area following expiration of the free time allowed for loading and unloading cargo. Current storage rates are typically \$.12 per linear foot of container per day, loaded or empty, for the first five days, and \$.25 per linear foot per day for the next five days. Demurrage is assessed against cargo remaining on a wharf, pier or terminal following the expiration of storage time. Current demurrage rates are typically \$.56 per linear foot per day for the first five days and \$1.12 per linear foot per day thereafter.

Demurrage and storage fees generally are assessed on a self-reporting basis. Each of the shipping lines that uses the ports comprising the Harbor System is responsible for reporting the demurrage and storage owed for each voyage to the Department, which is payable within 30 days after the shipping line receives from the Department a monthly statement of demurrage and storage owed. No audits are performed for demurrage and storage reports.

### **Rentals Income**

Rental income is the second major source of operating revenues for the Harbor System. Rental income accounted for \$22 million, \$21.7 million and \$23.3 million of operating revenues in the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, respectively, and comprised approximately 36%, 35% and 35% of total operating revenues in such fiscal years. Rentals income includes charges for wharf space and land, storage, pipeline usage and automobile parking space.

The Department derives rentals income principally from leasing of land and improvements under revocable permits and leases. Such permits and leases accounted for \$16.5 million, \$15.4 million and \$17.4 million of rentals income in the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, respectively, and comprised approximately 75%, 71% and 75% of rentals income in such fiscal years. The rental rates under revocable permits may be adjusted annually to reflect contemporaneous real estate values in the State. The rental rates under leases may be fixed for periods of five years or more. Currently, revenues derived from leases constitute approximately 36%, and revenues from revocable permits constitute approximately 64% of the total revenues from leases and permits.

Rentals under leases are based upon the independently appraised value of the property leased and are issued by direct negotiation or by public auction. When rentals are determined by public auction, however, the price at which bidding is started at a public auction may be less than the appraised value. In leases exceeding ten years, the rent generally is fixed for five year periods, with increases of 15% at the end of each five-year period. See "THE HARBOR SYSTEM - Summary of Harbor Operations."

The Department has leased land or building space through revocable permits and leases to over 270 tenants. The lease rent payable by the top ten tenants of the Department represented 34% of total annual lease and revocable permit rents for fiscal year 2001 and represents approximately 34% of such amounts for the year ended June 30, 2002. Under existing leases as of June 30, 2001, it is expected that the estimated lease rents payable by the Department's top ten tenants represent about one-third of total annual lease and revocable permit rents for the next five fiscal years.

## **Other Operating Revenues**

Other operating revenues, including reimbursement for the cost of utilities furnished to ships, sales of vendor permits, sales of materials and supplies and miscellaneous items, accounted for approximately \$1.7, \$1.1 and \$1.3 million of operating revenues in each of the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, and constituted only approximately 2% of operating revenues for each of such fiscal years.

## **Interest Income**

In addition to operating revenues, the Department receives interest income from investments such as certificates of deposit, direct finance leases and U.S. Treasury obligations. The interest income received by the Department in any fiscal year depends on the amount available for investment, prevailing interest rates and restrictions on the investment practices of the Department that affect the types of investments made. Interest income from investments other than direct finance leases is included in Net Revenues and totaled \$4.8 million, \$6.3 million and \$8.6 million in the fiscal years ended June 30, 1999, June 30, 2000 and June 30, 2001, respectively.

## **Other Matters Potentially Affecting Net Revenues**

***Honolulu Waterfront Master Plan.*** The State's Office of State Planning completed the Honolulu Waterfront Master Plan (the "Waterfront Plan") in January 1990, covering the area from Ala Moana Park on the east to the Honolulu International Airport on the west and Barbers Point Harbor on the southwest shore of Oahu, which area includes Kewalo Basin and Honolulu Harbor. The Waterfront Plan represents a comprehensive long-range vision for the Honolulu Waterfront. It was designed to recognize the importance of Honolulu Harbor as the lifeline of Statewide commerce and, at the same time, provide for the recreational, cultural and economic needs of a growing population. The Waterfront Plan addresses major planning issues concerning public access and use of the waterfront, long-term integrity of commercial maritime operations, plan implementation, relocation needs and financial feasibility. The Waterfront Plan reflects many competing interests and the effect on the Revenues and operations of the Harbor System cannot be determined with certainty at this time.

***Oahu Commercial Harbors 2020 Master Plan.*** Since the completion of the Honolulu Waterfront Master Plan, financial support for non-maritime development of the lands surrounding Honolulu Harbor has declined. The spatial, facility and support requirements of Hawaii's life-line ocean cargo carriers, on the other hand, have increased. This shift in trends necessitated a return to a focus on the needs and projected growth of the maritime community. The Oahu Commercial Harbors 2020 Master Plan, approved by Governor Benjamin J. Cayetano on May 6, 1997, used current economic indicators to plan the infrastructure required by Hawaii's essential commodity carriers. This Oahu Commercial Harbors 2020 Master Plan incorporates and updates the Waterfront Plan's commercial harbor components, as well as the 2010 master plans for Honolulu and Barbers Point harbors.

The Oahu Commercial Harbors 2020 Master Plan provides a general, long-range guide for commercial harbor development, based on the knowledge and experience of the users of the facilities and their anticipation of future trends. Implementation of the recommendations of this plan will enhance operational efficiency and encourage further development of Harbors Division's revenues. Many aspects of this master plan have been completed, including the Honolulu Harbor Inter-island Cargo Terminal at Piers 39-40, acquisition of additional land for cargo operations near Pier 40, the dredging of the Kalaeloa Barbers Point Harbor expansion, and the construction of the Kalaeloa Barbers Point Harbor Pier P-5 extension. Many other aspects are underway including the construction of the Domestic Commercial Fishing Village in Honolulu Harbor and the construction of Pier P-7 at Kalaeloa Barbers Point Harbor.

***Hawaii Commercial Harbors 2020 Master Plan, Kahului Harbor 2025 Master Plan, Kauai Commercial Harbors 2025 Master Plan.*** Following the completion of the Oahu Commercial Harbors 2020 Master Plan, the Harbors Division embarked on updating the remaining 2010 Master Plans for commercial harbors statewide. To date, the aforementioned plans were completed and approved by Governor Benjamin J. Cayetano on August 7, 1998, September 14, 2000, and September 24, 2001, respectively. These master plans provides a general, long-range guide for commercial harbor development, based on the knowledge and experience of the users of the facilities and their anticipation of future trends. Implementation of the recommendations of this plan will enhance operational efficiency and encourage further development of Harbors Division's revenues.

***Aloha Tower Development.*** In 1981, the State created the Aloha Tower Development Corporation ("ATDC") to redevelop the Aloha Tower area of Honolulu Harbor (the "Aloha Tower Complex"). In March 1993, ATDC entered into an Amended and Restated Development Agreement ("ARDA") with Aloha Tower Associates ("ATA") under which ATA acquired the rights to develop the Aloha Tower Complex in five separate phases. The initial phase was the development of a festival retail area (the "Marketplace").

To implement the redevelopment of the Aloha Tower Complex, the Department entered into a lease agreement and memorandum of understanding with ATDC in September 1993, leasing to ATDC the area comprising Piers 5 through 14 ("Ground Lease"). Certain areas were excluded from the leased area including all maritime facilities (such as piers, docks, wharves, ferry terminal space, and certain portions of vessel terminal areas) and Department facilities (such as the Department's administration building, Aloha Tower offices, and parking areas). To develop the Marketplace, ATDC then entered into a series of subleases and agreements ("Marketplace Lease") with Aloha Tower Associates Piers 7, 8 and 9 Limited Partnership ("Original Lessee").

Under the Ground Lease and in accordance with applicable statutes, ATDC is obligated to (a) reimburse the Department for the Department's losses in revenue attributable to the development of the Aloha Tower Complex ("losses in revenues") and (b) provide replacement maritime facilities. ATDC and the Department agreed that the amount of the losses in revenues was approximately \$1.4 million annually, to be adjusted for inflation in accordance with the consumer price index. ATA (under the ARDA) and the Original Lessee (under the Marketplace Lease), were each required by ATDC to guarantee a sufficient revenue stream to ATDC to meet ATDC's statutory obligation to reimburse the Department for the losses in revenues. This guaranty of payment by ATA and the Original Lessee expired at the end of 1999. ATDC remains obligated to pay the losses in revenues to the Department.

The Marketplace opened in 1994 and soon thereafter, the Original Lessee fell into default of its obligations to ATDC and to its lender, Mitsui Trust & Banking Co., Ltd. ("Mitsui Trust"). The Original Lessee failed to pay ATDC lease rent, failed to construct the required number of parking spaces, and failed to complete construction of certain items required by the Department.

Mitsui Trust paid the overdue lease rent and initiated efforts to cure the nonmonetary defaults. The Original Lessee filed a lender liability lawsuit against Mitsui Trust and Mitsui Trust filed a foreclosure action against the Original Lessee.

Mitsui Trust negotiated an agreement to sell its interest to Trinity Investment Trust, LLC ("Trinity"). In 1997, Trinity's affiliate, AHI Aloha Limited Partnership ("AHI") acquired the loan documents from Mitsui Trust. Mitsui Trust and Trinity, together with other creditors, filed an involuntary bankruptcy proceeding against the Original Lessee. Under this proceeding, the Marketplace Lease was sold to another Trinity affiliate, Aloha Tower, L.P. ("ATLP"). After this sale out of the bankruptcy court, the lender liability and foreclosure actions were settled.

The Department and ATDC consented to the assignments on the condition that AHI and ATLP acknowledge and agree that the Marketplace Lease was in a state of default due to the Original Lessee's failure to provide adequate parking and complete the construction of certain items for the Department. Although AHI and ATLP submitted proposals to cure the parking default, none have yet been approved by ATDC. In December 2001, AHI and ATLP filed a lawsuit against ATDC and the Department claiming the State's failure to approve the parking proposals resulted in significant losses to the Marketplace. The lawsuit was dismissed on or about January 14, 2002. The next day, ATLP filed a chapter 11 petition in bankruptcy court on January 15, 2002.

As of June 30, 2001, the Department had not been paid for its losses in revenues since May 16, 1997, in the amount of approximately \$2,864,632.00. The Department is currently negotiating with ATDC to resolve this deficiency. In light of ATLP's recent bankruptcy petition, the Department may not receive full payment of all late payments for some time.

***Makai Kakaako Development.*** Under Act 86, 1990 Session Laws of Hawaii ("Act 86"), the state Legislature transferred approximately 73 acres of lands at Kewalo Basin and Fort Armstrong ("subject property") under the jurisdiction of the Harbor System to the Hawaii Community Development Authority (the "HCDA"). HCDA is a state agency which is responsible for overseeing the development of the Kakaako Community

Development District (the "District"). Under Act 86, HCDA is required, as part of the transfer, to ensure that the State is able to satisfy any covenant between the State or any county or any department or board thereof and the holders of bonds issued by the State or such county, department or board, if any. As of the date of this official statement, all acts necessary to complete the transfer of the subject property to HCDA have been completed, including the execution of the deed and the cancellation of the relevant Governor's executive orders which had previously set aside the subject property to the Department of Transportation, Harbors Division (the "Harbors Division").

As part of HCDA's development of the District, the western portion of the Kewalo Basin area is scheduled for redevelopment. With respect to Kewalo Basin, the Harbors Division expects to continue operating the harbor facilities, managing the adjacent land areas, and enforcing its applicable administrative rules. Improvements in this area which were constructed under former Harbors Division leases have either been demolished or are scheduled for demolition. Within the Fort Armstrong area, consisting of Piers 1 and 2 at Honolulu Harbor, HCDA has extended Ilalo Street and plans to realign Forrest Avenue, both of which are major circulatory roadways in the District. Because the realignment of Forrest Avenue will affect certain facilities and improvements used by harbor users, HCDA has agreed to replace such facilities and improvements, at HCDA's cost. With respect to Fort Armstrong, the Harbors Division also expects to continue operating the harbor facilities, managing adjacent land areas, and enforcing its applicable administrative rules. The Harbors Division is and has been negotiating with HCDA in an attempt to resolve issues relating to the Harbors Division's continued operation and management of Kewalo Basin and Fort Armstrong, including, without limitation, the amount of revenues to be retained by the Harbors Division, the costs attributable to such operation and management (such as security, maintenance and facility repair costs), the value of improvements that have been or are scheduled for demolition, and the responsibility for capital improvement projects. The outcome of these negotiations will impact future revenue projections for the Harbors Division, particularly as the development of the District progresses, however, the scope and magnitude of such anticipated impacts cannot be accurately predicted at this time.

The Director is one of 11 voting members of the HCDA's board of directors.

**Kapalama Military Reservation.** Between 1990 and 1993, the State of Hawaii acquired approximately 61.8 acres of land within the Kapalama Military Reservation area, comprised primarily of areas adjacent or near to Piers 39 through 41 at Honolulu Harbor ("KMR site"). Following the acquisition, the Board of Land and Natural Resources ("Land Board"), in separate actions in 1992 and 1993, approved the Department's request to set aside jurisdiction and control over the KMR site to the Department for airport and harbor purposes.

By statute, a set-aside also requires the Governor to execute an executive order identifying the lands to be set aside, the purposes of the set-aside, and the government entity to whom the set-aside is being made. The executive order is then reported to the Legislature and is subject to disapproval at the next legislative session following the Governor's execution of the executive order.

For various reasons, including difficulties in preparing the property descriptions for the KMR site, and subsequent requests for Land Board actions to amend the set-aside areas, the Governor's executive orders setting aside the KMR site to the Department have not yet been executed. It is anticipated that several executive orders, as amended by subsequent Land Board actions, will be prepared and ready for the Governor's signature in the near future. The effective date of the executive orders will be the date the Land Board approved the respective set asides of the KMR site to the Department.

The Land Board actions taken subsequent to its approval of the original set asides of the KMR site include: (1) approving the withdrawal and re-set aside of about 4 acres of the KMR site to the state Department of Agriculture for its plant quarantine and inspection facilities, (2) approving and later rescinding the conveyance of about 10 acres of the KMR site to the University of Hawaii (UH), which area was intended to accommodate tenants who had been relocated from other state property because of the planned construction of the new UH medical school, and (3) clarifying that a 36.698 acre portion of the KMR site is being set aside for harbor purposes only.

In approving the set asides of the KMR site to the Department in 1992 and 1993, the Land Board approved the set asides for both airport and harbor purposes. In an effort to clarify which lands may be used for airport purposes and which may be used for harbor purposes, the Department sought and obtained such clarification for the

foregoing 36.698 acre portion of the KMR site. The Department also plans to seek such clarification with respect to the remaining portion of the KMR site. Specifically, the Department will, in the near future, request Land Board approval that a portion of the remaining KMR site be set aside for airport purposes only and a portion be set aside for harbor purposes only.

**Environmental Issues.** The Harbors Division has been identified, among others, as a potentially responsible party by the State Department of Health (the "DOH") with respect to subsurface contamination along the Honolulu waterfront. The contamination is due to past releases of petroleum-based materials, and the DOH is initially concentrating on the areas between Piers 19 and 38 of Honolulu Harbor. Remediation is underway at several harbor sites and the Harbors Division is sharing in the costs of this remediation effort. Studies are continuing to determine the scope of contamination, and the Department is unable to predict the outcome of such studies or estimate the costs of remediation at this time. The DOH has stated that it will take a risk-based approach to any remediation efforts, that is, remediation consistent with the use of the property. Since the sites involved are expected to remain in industrial use, such remediation efforts may be limited.

**Safety and Security.** The Harbors Division is currently working with the Coast Guard and other agencies in developing a security plan for statewide commercial harbors as a result of the terrorist attack of September 11, 2002. Some measures to improve security have already been implemented, including increased security for the cruise ship terminals. Additionally, Act 12 of the Third Special Session of the 2002 Legislature appropriated \$4,212,000 in Harbor special funds to be used for security improvements.

**Cargo Industry.** The September 11, 2001 terrorist attack on America resulted in a reduction in the number of travelers. Hawaii's cargo industry, which is highly correlated with the gross State product, is reported to have declined slightly.

**Ceded Lands.** In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") back to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands for native Hawaiians.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992, the State, through its departments and agencies, has been paying 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, Session Laws of Hawaii 1993, appropriating \$136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.)), claiming that the amount paid to OHA was inadequate

and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (i) the Department of Transportation Airports Division's in-bond duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court ruled that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. *OHA v. State of Hawaii*, 96 Haw. 388 (2001). The Supreme Court dismissed the case for lack of justiciability noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. The Department has not made any payments to OHA since the Supreme Court's decision.

It is unlikely that OHA will abandon its claims for a portion of the revenues from the Sources and other ceded lands that it made in this case, but the State is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have a material adverse effect on the State's financial condition.

**Cruise Ships.** Hawaii has recently experienced major changes in the local cruise industry. The only domestic cruise line, American Hawaii Cruises, filed for bankruptcy in October 2001 and stopped sailing its two year-round ships that had a total capacity of 2,000 passengers. However, in December 2001 a foreign 2,200-passenger ship from Norwegian Cruise Line Ltd began its year-round circuit in Hawaii waters which in effect replaced the loss of American Hawaii Cruises' year-round circuit. As a popular cruise destination, the number of cruise ship passenger arrivals has increased for foreign cruise ships after the September 11, 2001 terrorist attack on the United States of America and it is projected that this growth will continue into 2002 and beyond.

**Legislation.** Various bills have been introduced at the current session of the State Legislature which could affect the Department's operations and revenues. The Department, at this time, cannot predict the likelihood of passage of any legislation, or if passed, any effect on the Department's operations or revenues.

As a result of the events of September 11, 2001, the Governor called the Legislature into a third special session, which convened on October 22, 2001 and adjourned on October 31, 2001. Fifteen measures were enacted by the Legislature and approved by the Governor. These measures appropriated moneys for food, housing, health insurance, and jobs for residents of Hawaii potentially affected by the economic impact of those events. Act 15 provided the Governor with special powers to declare an economic emergency during the period from September 11, 2001 to April 30, 2002, and was empowered to suspend certain statutes, rules or orders and adopt rules to provide relief to residents of the State to facilitate continuity of business activity and services, minimize employee layoffs

and prevent endangerment of public health, safety or welfare; and to suspend, waive or defer certain contract obligations owed to the State. To date, the Harbors Division has not determined the extent that it will participate in any type of relief program.

For details on the legislative special session, see in GENERAL ECONOMIC INFORMATION, Appendix B.

***Tariff Rate Increases; Rate Covenant.*** As indicated under the heading "SECURITY FOR THE BONDS - Rates and Charges," the Department has covenanted to impose, prescribe and collect rates, rentals, fees and charges which will enable it to comply with the Rate Covenant. If any event, including any of the foregoing events, causes an extraordinary decrease in Revenues or increase in operating expenses, the Department will be obligated to adjust tariffs in order to comply with the Rate Covenant. See "SECURITY FOR THE BONDS - Rates and Charges" and "SOURCES OF REVENUES."

## DEPARTMENT OF TRANSPORTATION

### Department Organization

The Department is one of 18 principal executive departments of the State. Chapter 26, HRS, empowers the Department to establish, maintain and operate the transportation facilities of the State, including highways, airports, harbors and such other transportation facilities. The Department's activities are carried out through three primary operating divisions: Airports, Harbors and Highways.

Through the Harbors Division (the "Harbors Division"), the Department exercises control and management of the harbors, harbor and waterfront improvements, docks, ports, wharves, quays, bulkheads and landings belonging to or controlled by the State and all vessels and shipping lines using the same. The Harbors Division operates the Harbor System as a single integrated system for management and financial purposes.

### Department Management

The Department is headed by the Director of Transportation, a single executive appointed by the Governor and confirmed by the State Senate. The Governor is authorized to appoint, without State Senate confirmation, two Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms conterminous with the Governor's term.

Chapter 26, HRS, establishes the Commission on Transportation which sits in an advisory capacity to the Director on matters within the jurisdiction of the Department, including the Harbor System. The Commission on Transportation consists of at least one member from each of the four counties of the State.

The Harbors Division is managed by a Harbors Administrator. Each district of harbors is managed by a district manager. The Staff Services Office, which is headed by an Administrative Services Officer performs all personnel; budget; property management; financial management; methods, standards and evaluation; data processing systems, and office services functions for the Harbors Division. The Engineering Branch, which is headed by an engineering program manager performs all planning, design, construction and maintenance engineering functions for the Harbors Division.

### Management Personnel

The following are the current senior executives of the Department responsible for the management of the Harbor System:

**Brian K. Minaai, Director**, assumed his present position in January 2001. Prior to his appointment as Director, Mr. Minaai served as the Deputy Director responsible for the property management functions and capital improvement programs for the Department's three divisions – Airports, Harbors and Highways. Prior to assuming that position, he was the Chief Clerk of the Hawaii Senate Committee on Ways and Means, and was responsible for

the development of the State operational and capital improvement budgets, taxation, and finance legislation for the Senate. In addition, he was the Project Manager with West Beach Estates for the Ko Olina Resort (1984-1989) and the Project Manager with Haseko, Inc. (1989-1996). Mr. Minaai received a Masters in Business Administration, as well as a Masters of Arts and Economics from the University of Hawaii.

**Jean L. Oshita, Deputy Director**, assumed her present position in December 2001. She is responsible for the administrative functions of the Department, including budget, fiscal and personnel matters. Prior to assuming this position she was the Administrative Services Officer for the Airports Division and was directly responsible for administering the issuance of all bonds for the Airports System. Ms. Oshita oversaw the Airports Division financial management, personnel and property management programs and provided budget, program evaluation, procurement and management analysis support services. Ms. Oshita previously served as Administrative Services Officer at the Department of Hawaiian Home Lands. Ms. Oshita graduated from the University of Hawaii in 1974 with a B.Ed. degree in Elementary Education.

**Jadine Y. Urasaki, Deputy Director and Acting Harbors Administrator, Harbors Division**, assumed her positions in January 2001 and December 2001, respectively. As the Deputy Director, she is responsible for the Capital Improvements Programs of the Airports, Harbors and Highways Divisions. Prior to assuming these positions, she worked as a Project Engineer at Koga Engineering & Construction, Inc. (1993-1995), Project Engineer at Ray Wilson Company (1995-1996), Environmental Engineer at the Department of Health (1996-1997) and various positions at the Department's Highways Division, the last being Project Coordinator Section head of the Construction and Maintenance Branch. Ms. Urasaki graduated from the University of Hawaii in 1992 with a Bachelor of Science degree in Civil Engineering.

**Frederick S. Nunes, Engineering Program Manager, Harbors Division**, has held this position since 1998. Prior to that date, Mr. Nunes worked in various engineering positions with the Department. Mr. Nunes received a Bachelor of Science degree in engineering from the University of Hawaii in 1971 and obtained his Hawaii professional engineer's license in 1975.

**Warren N. Sugimoto, Administrative Services Officer, Harbors Division**, has held this position since 1997. Prior to that date, Mr. Sugimoto has worked in various positions in the State government. Mr. Sugimoto received his Bachelor in Business Administration from the University of Hawaii in 1970.

## **Employees**

As of January 1, 2002, the Harbors Division had 247 authorized positions, of which 208 were filled. State law grants public employees, except those excluded from any appropriate bargaining unit, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer.

The Harbors Division employees are represented by the following employee organizations. Blue collar non-supervisory employees are represented by United Public Workers (AFSCME), Local 646 (AFL-CIO). Blue collar supervisors, white collar supervisors and non-supervisory employees and professionals employees are represented by Hawaii Government Employees' Association (AFSCME), Local 152 (AFL-CIO). See Appendix B - "THE STATE OF HAWAII - Labor Contracts."

## **THE HARBOR SYSTEM**

### **General**

The Harbor System is comprised of ten harbors, which are operated and maintained by the Department as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaheo Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor on the island of Maui, and

Kaunakakai Harbor on the island of Molokai, and Kaunapau Harbor on the island of Lanai, comprising the Maui District.

Table 3 shows the percentage breakdown of operating revenues by district for the fiscal year ended June 30, 2001.

**TABLE 3**  
**BREAKDOWN OF OPERATING REVENUES BY DISTRICT**  
**Fiscal Year Ended June 30, 2001**

<u>District</u>	<u>Percentage</u>
Oahu (Honolulu, Kewalo Basin and Kalaheo Barbers Point)	80%
Hawaii (Hilo and Kawaihae)	7
Maui (Kahului, Kaunakakai and Kaunapau)	8
Kauai (Nawiliwili and Port Allen)	5
TOTAL	100%

*Source: State of Hawaii Harbors Division.*

The locations of the harbors comprising the Harbor System are shown on the map of Principal Commercial Harbors of Hawaii on the page before the table of contents of this Official Statement. The map also shows locations of a privately operated off-shore mooring facility near Kalaheo Barbers Point on Oahu used by tankers to pump petroleum and petroleum products via ocean-bed pipelines to and from storage tanks on shore, and Kaunapau Harbor.

The term "Harbor System" is used synonymously in this Official Statement with the term "Undertaking". "Undertaking" is defined in the Certificate to mean and include all harbors, harbor and waterfront improvements, ports, docks, wharves, quays, bulkheads and landings and other related facilities and properties (real, personal or mixed) belonging to, controlled by or constructed or acquired by the State under the administration, jurisdiction, control and management of the Department, except facilities principally used for recreation or fishing. Neither the Harbor System nor the Undertaking includes any State ferry system, any properties disposed of or transferred pursuant to the Certificate, any properties subject to a Net Rent Lease executed in accordance with the Certificate, and properties in Kewalo Basin and Fort Armstrong transferred from the Department to the HCDA, although moneys received on account of the Kewalo Basin and Fort Armstrong properties continue to be included in Revenues under the Certificate while the transfers are in the process of being completed. See "SOURCES OF REVENUES - Other Matters Potentially Affecting Revenues; Ceded Lands."

There are a number of State-owned shallow-draft small boat harbors and boat launching ramps throughout the State which are utilized primarily for recreational purposes. These harbors, which are under the administrative jurisdiction of the DLNR, are not part of the Harbor System. These harbors do not involve the commercial harbor operations and were not financed with Bonds.

### **Summary of Harbor System Operations**

**General.** The Department operates the Harbor System as a landlord port. The Department leases land and building space through revocable permits or leases to shipping companies, terminal operators and other maritime or related entities. The Department maintains all piers, wharves, cargo sheds, container yards and other back-up facilities as common areas, which are used by the shipping companies and terminal operators on a nonexclusive basis for their operations. The shipping companies and terminal operators are responsible for the maintenance of the leased premises and cargo handling equipment.

The Department estimates that approximately 10% of the land (excluding submerged land) and improvements comprising the Harbor System is leased or held for lease under revocable permits or leases. Revocable permits generally are granted where the use of the leased property is subject to change. Revocable permits have terms of up to a year and can be terminated upon one month's notice. Leases generally are of a long-term period where the tenant intends to make improvements to the premises. Leases have terms of five years or more. All leases and non-maritime related revocable permits must be approved by the DLNR.

The Department derives Revenues from the rentals under revocable permits and leases. With respect to the land and improvements comprising the Harbor System that is not under a lease or revocable permit, the Department derives Revenues only from tariffs assessed on shipping and charges for other services. See "SOURCES OF REVENUES."

The terminal operators that use the ports comprising the Harbor System hire longshoremen and other employees to provide stevedoring, cargo handling and other services in connection with the operation of the leased property and the use of the common areas. Labor contracts between the terminal operators and the International Longshoremen's and Warehousemen's Union have been negotiated and ratified through June 30, 2002. Negotiations are ongoing at this time.

The Harbors Division and the U.S. Army Corps of Engineers (the "Corps") monitor the depths of the harbors comprising the Harbor System on a periodic basis to ensure timely dredging. The Corps maintains the design depths of the entrance channels and turning basins and dredges at intervals of six to 11 years. The Harbors Division maintains the design depths of the berths and dredges at intervals of ten to 20 years. Kahului Harbor, Nawiliwili Harbor, Port Allen Harbor, Kalaeloa Barbers Point Harbor and parts of Honolulu Harbor were dredged by the Corps in 1999.

Each harbor has facilities for the loading, unloading, handling and storage of bulk and other cargo, and some harbors provide passenger facilities. The major types of bulk cargo shipped through the Harbor System include cement, oil and petroleum products, sugar, molasses, grain, coal and other solid products. Nearly all non-bulk cargo is shipped through the Harbor System in containers.

There are approximately thirty principal shipping lines providing service to Hawaii. Tables 4A and 4B list the ten largest contributors of wharfage revenues to the Department. Matson Navigation Company ("Matson"), CSX Lines ("CSX") and Young Brothers Company, Inc. ("Young Brothers") are the major cargo operators serving the Harbor System, accounting for almost 80% of the wharfage revenues of the system. Matson operates six large container ships between Honolulu Harbor and the west coast of the United States with ships arriving at Honolulu Harbor three times each week. Matson maintains seven gantry cranes on Sand Island at Piers 51-53 of Honolulu Harbor and maintains facilities for transshipment service at several of the other harbors. CSX operates six container ships between Honolulu Harbor and the west coast of the United States, with ships arriving at Honolulu Harbor twice a week en route to the far east. CSX has two gantry cranes and a back-up area on Sand Island and maintains offices at several of the other harbors. Young Brothers operates only inter-island vessels at Piers 39 and 40 of Honolulu Harbor and at most of the other harbors.

Tables 4A and 4B show the top 10 shipping agencies for the fiscal year ended June 30, 2001 and for the six-month periods ended December 31, 2000 and December 31, 2001.

**TABLE 4A**  
**TOP TEN SHIPPING AGENCIES**  
**Fiscal Year Ending June 30, 2001**

<u>SHIPPER</u>	<u>WHARFAGE REVENUES (\$000's)</u>	<u>AS A PERCENTAGE OF TOTAL WHARFAGE REVENUES</u>
1 Matson Navigation Company	16,108	44.18%
2 Young Brothers, Ltd.	6,621	18.16
3 CSX Lines LLC	6,311	17.31
4 Waldron Steamship Co., Ltd.	1,996	5.47
5 AMCV Holdings, Inc.	851	2.33
6 Lavino Shipping Agencies, Inc.	842	2.31
7 Tesoro Hawaii Corp	595	1.63
8 Hawaiian Cement	471	1.29
9 ChevronTexaco Corporation	408	1.12
10 Sause Bros. Ocean Towing Co.	<u>326</u>	<u>0.89</u>
<b>TOTAL WHARFAGE REVENUE (top 10 only)</b>	<b>34,529</b>	<b>94.69%</b>

Source: State of Hawaii Harbors Division.

**TABLE 4B**  
**TOP TEN SHIPPING AGENCIES**  
**For the 6-month period ended December 31, 2000 and 2001**

<u>SHIPPER</u>	<u>WHARFAGE REVENUES (\$000's)</u>		<u>AS A PERCENTAGE OF TOTAL WHARFAGE REVENUES</u>	
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>
1 Matson Navigation Company	8,503	8,302	46.73%	44.41%
2 CSX Lines LLC	3,317	3,451	18.23	18.46
3 Young Brothers, Ltd.	2,827	3,349	15.53	17.92
4 Waldron Steamship Co., Ltd.	1,151	1,085	6.32	5.80
5 Lavino Shipping Agencies	431	411	2.37	2.20
6 Tesoro Hawaii Corporation	296	393	1.63	2.10
7 AMCV Holdings, Inc. (1)	239	343	1.31	1.83
8 Transmarine Navigation Corp.	209	188	1.15	1.01
9 Aloha Cargo Agency Services	203	173	1.12	0.93
10 Hawaiian Interisland Towing Inc.	<u>171</u>	<u>160</u>	<u>0.94</u>	<u>0.86</u>
<b>TOTAL WHARFAGE REVENUE (top 10 only)</b>	<b>17,347</b>	<b>17,855</b>	<b>95.33%</b>	<b>95.52%</b>

(1) AMCV Holdings, Inc. filed Chapter 11 on October 19, 2001.  
Above reflects wharfage revenues on cash basis only.



Tables 6A and 6B present historical data for cargo traffic (in tonnage) for the different Hawaii harbors for the fiscal years ended June 30, 1997 through June 30, 2001, and for the six-month periods ending December 31, 2000 and December 31, 2001. Because charges imposed by the Harbors Division are based primarily on units as opposed to tonnage, historical trends in tonnage do not necessarily correlate with trends in total revenues.

**TABLE 6A**  
**ANNUAL TRENDS IN CARGO VOLUME FOR HAWAII HARBORS**  
**Fiscal Year 1997 – Fiscal Year 2001**

Fiscal Year Ended <u>June 30</u>	Oahu		Maui	Hawaii		Kauai		Molokai	<u>Total</u>
	<u>Honolulu</u>	<u>Kalaeloa Barbers Point<sup>(1)</sup></u>	<u>Kahului</u>	<u>Hilo</u>	<u>Kawaihae</u>	<u>Nawiliwili</u>	<u>Port Allen</u>	<u>Kaunakakai</u>	
1997	8,580	3,005	2,276	1,227	412	671	166	101	16,438
1998	8,510	3,013	2,367	1,370	524	704	175	117	16,780
1999	7,460	2,991	2,312	1,298	495	687	171	132	15,546
2000	8,203	3,205	2,530	1,363	586	719	189	99	16,894
2001	8,318	3,229	2,580	1,425	649	685	192	94	17,172

(1) Tonnage is mainly pipelines for shipment of liquid products.

Source: State of Hawaii Harbors Division: Most recent available information.

**TABLE 6B**  
**ANNUAL TRENDS IN CARGO VOLUME FOR HAWAII HARBORS**  
**For Six-Month Period Ended December 31, 2000 and 2001**

6-Month Period <u>Ended December 31</u>	Oahu		Maui	Hawaii		Kauai		Molokai	<u>Total</u>
	<u>Honolulu</u>	<u>Kalaeloa Barbers Point<sup>(1)</sup></u>	<u>Kahului</u>	<u>Hilo</u>	<u>Kawaihae</u>	<u>Nawiliwili</u>	<u>Port Allen</u>	<u>Kaunakakai</u>	
2000	4,221	1,542	1,364	704	327	372	97	45	8,672
2001	4,285	1,582	1,370	754	289	328	122	42	8,772

(1) Tonnage is mainly pipelines for shipment of liquid products.

Source: State of Hawaii Harbors Division.

Table 7 presents historical data for cargo traffic in the Harbor System (by destination) for the fiscal years ended June 30, 1998 through June 30, 2001, and for the six month periods ended December 31, 2000 and December 31, 2001.

**TABLE 7**  
**INBOUND/OUTBOUND CARGO TRENDS (IN THOUSANDS OF SHORT TONS)**  
**FY 1998 – FY 2001**

	Fiscal Year Ended June 30						Six months ended December 31		
	1998		1999		2000		2000		2001
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
<b>INBOUND</b>									
Domestic	4,322	41.1%	3,766	38.5%	4,271	38.9%	2,259	39.0%	2,339
Foreign	1,960	18.7%	1,914	19.5%	2,253	20.5%	1,235	21.3%	1,092
Inter-island	4,231	40.2%	4,112	42.0%	4,464	40.6%	2,304	39.7%	2,395
<b>Total Inbound</b>	<b>10,513</b>		<b>9,792</b>		<b>10,988</b>		<b>5,798</b>		<b>5,826</b>
<b>OUTBOUND</b>									
Domestic	1,732	27.6%	1,227	21.3%	1,253	21.2%	640	22.4%	654
Foreign	1,335	21.3%	1,176	20.5%	936	15.9%	387	13.5%	215
Inter-island	3,200	51.1%	3,351	58.2%	3,715	62.9%	1,833	64.1%	2,093
<b>Total Outbound</b>	<b>6,267</b>		<b>5,754</b>		<b>5,904</b>		<b>2,860</b>		<b>2,962</b>

Source: State of Hawaii Harbors Division.

Table 8 shows the numbers of overseas and inter-island ship calls recorded in the Harbor System for fiscal years ended June 30, 1997 through June 30, 2001. These figures include arrivals by container, bulk and other cargo ships, passenger ships and tugs and barges, but exclude calls to privately operated facilities. Declines are primarily due to declines in arrivals of fishing vessels.

**TABLE 8**  
**ANNUAL TRENDS IN SHIP CALLS**

<u>FISCAL YEAR ENDED JUNE 30,</u>	<u>COUNT</u>
1997	8,245
1998	8,442
1999	8,350
2000	8,325
2001	8,395

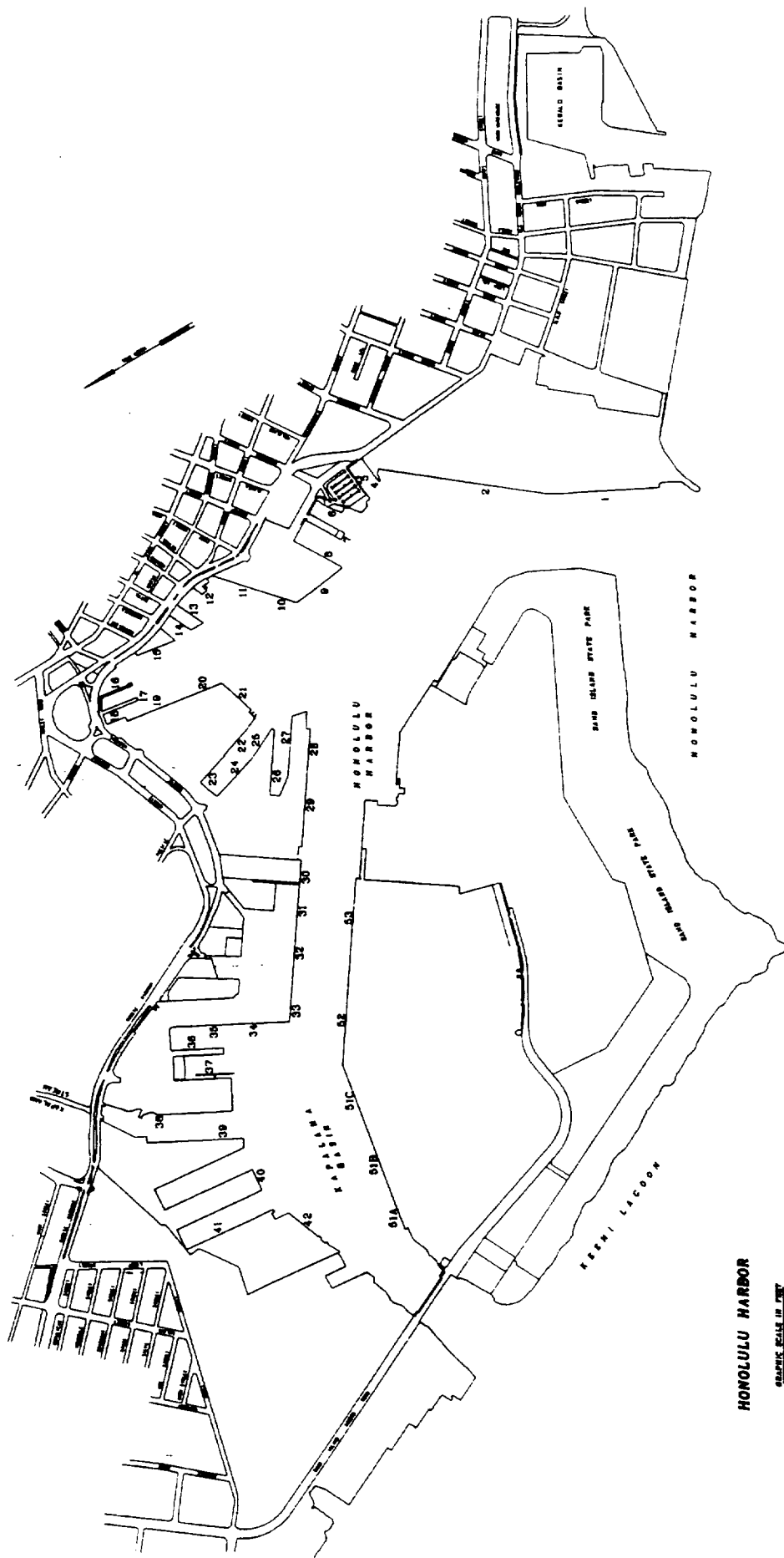
*Source: State of Hawaii Harbors Division (most recent available information).*

The facilities and operations of each commercial harbor comprising the Harbor System are described in greater detail below.

**Honolulu Harbor.** Honolulu Harbor, the principal harbor in the Harbor System, has over 30 berths, 22,500 linear feet of cargo handling pier and over 247 acres of cargo handling area, a significant portion of which is yard area. Honolulu Harbor is located on the southern (leeward) coast of Oahu in Hawaii's capital city. The harbor is entered and exited through the Fort Armstrong Channel, which has a depth of 45 feet. The main harbor basin is dredged to a depth of 40 feet. Piers 1 through 42 have direct access to Nimitz Highway/Ala Moana Boulevard, the principal roadway bordering the harbor. Piers 51 through 53 on Sand Island comprise the State's principal container ship handling area. The area is connected to Nimitz Highway by a four-lane roadway, including two bridges over the Kalihi Channel. Piers 1 and 2 at Fort Armstrong comprise the other major container handling facility in Honolulu Harbor.

The State owns most of the land and waterfront facilities comprising Honolulu Harbor. Some facilities are owned by the U.S. government, however, including the U.S. Coast Guard Station at Pier 4 and part of Sand Island. A few facilities are privately-owned, including ChevronTexaco Corporation, petroleum shipping, transfer and storage facilities and support equipment at Pier 30. A detailed map of Honolulu Harbor is provided on the following page. Table 9 indicates the principal characteristics of the cargo, shipping and other facilities of piers in Honolulu Harbor, as of February 28, 2002.

# MAP OF HONOLULU HARBOR



**TABLE 9**  
**PRINCIPAL CHARACTERISTICS OF AVAILABLE PIERS**  
**HONOLULU HARBOR**

PIER	BERTH LENGTH (feet)	SHED AREA (thousands of sq. ft)	YARD AREA (thousands of sq. ft)	PRINCIPAL PIER USE <sup>1</sup>
1	1,266	78	1,351	Containers, Autos, Ro-Ro <sup>2</sup> , General Cargo
2	1,779	169	---	Foreign Trade Zone, Containers, Ro-Ro <sup>2</sup> , Lumber, Paper, General Cargo
3	---	---	---	Non-existent
4	---	---	---	Owned and used by U.S. Coast Guard
5 <sup>3</sup>	---	---	---	Small Cruise Ships, Auto Parking
6 <sup>3</sup>	160	---	---	Small Cruise Ships
7	710	---	---	Small Cruise Ships, Maritime Museum
8 <sup>3</sup>	615	---	---	Small Cruise Ships & Passengers
9 <sup>3</sup>	624	---	---	Cruise Ships & Passengers
10 <sup>3</sup>	502	63	---	Cruise Ships & Passengers
11 <sup>3</sup>	472	48	---	Cruise Ships & Passengers, Auto Parking
12 <sup>3</sup>	50	---	1	Small Cruise Vessels, Auto Parking
13 <sup>3</sup>	345	28	---	Tugs, Barges, Auto Parking, Ice Machine
14 <sup>3</sup>	280	---	---	Tugs, Auto Parking, Bunker Fuel <sup>4</sup> , Ice Machine
15	440	4.6	---	Fireboat
16	890	---	---	Commercial Fishing Boats
17	860	---	---	Commercial Fishing Boats
18	212	5	---	Fishing Loading, Storage/Repair Sheds, Pilot Boats
19	530	142	72	General Cargo, Lumber, Paper Products
20	460	74	105	General Cargo, Lumber, Autos, Sand
21	400	---	---	Tugs, Offices, Bunker Fuel
22	470	---	28	Tugs, Offices, Bunker Fuel <sup>4</sup>
23	400	33	---	Grain Storage, Conveyor, Gantry, Feedmill
24	558	50	43	General Cargo
25	365	20	---	General Cargo
26	685	37	93	General Cargo, Autos, Ro-Ro <sup>2</sup>
27	890	64	---	General Cargo, Autos, Ro-Ro <sup>2</sup>
28	540	---	---	General Cargo, Autos
29	750	102	55	General Cargo, Autos
30 <sup>5</sup>	270	---	32	Petroleum shipping and storage
31	400	100	224	Overseas Cargo, Fuel Pipelines
31A	375	75	---	Overseas Cargo, Fuel Pipelines, Paper Products
32	400	63	37	Overseas Cargo, Fuel Pipelines, Tinplate, Autos, Caustic Soda
33	315	---	60	Overseas Cargo, Fuel Pipelines, Autos, Sand
34	550	---	---	Petroleum, Cement, Bunker Fuel
35	705	---	---	Oil Spill Response Vessel, General Cargo
36	978	---	---	Water taxi, Commercial Fishing Boats, Commercial Fishing Village
37	408	---	---	Commercial Fishing Boats, Commercial Fishing Village
38 <sup>6</sup>	160	---	---	Liquefied Petroleum Gas, Commercial Fishing Village
39	2,139	175	416	Inter-island Cargo, Commercial Fishing Village
40	2,260	128	479	Inter-island Cargo, Impounded Vessels
41	640	---	305	Ship Repair
42	200	---	369	Barges, Ship Repair
44	200	---	---	University of Hawaii research vessels
45 <sup>7</sup>	670	---	---	University of Hawaii research vessels
<b>Sand Island</b>				
51A	680	---	1,102	Containers, Pipelines, Autos
51B	556	---	1,778	Containers, Autos, Molasses, Ro-Ro <sup>2</sup> , Pipeline
51C	680	---	---	Containers, Autos, Molasses, Ro-Ro <sup>2</sup>
52, 53	1,940	50	2,476	Containers, Autos, Molasses, Ro-Ro <sup>2</sup> , General Cargo
<b>TOTAL</b>	<b>29,779</b>	<b>1,508.6</b>	<b>9,026</b>	

<sup>1</sup> All cargo handling equipment for loading and moving cargo to, from and around the piers and ships is owned by the shipping and stevedoring companies.

<sup>2</sup> Ro-Ro = roll on roll off.

<sup>3</sup> These piers are currently planned to be redeveloped by the Aloha Tower Development Corporation, a State Agency.

<sup>4</sup> "Bunker" is related to the fueling operation for ships.

<sup>5</sup> Pier 30 is owned by ChevronTexaco Corp, not the Department.

<sup>6</sup> No continuous pier; two fixed mooring structures only.

<sup>7</sup> Pier 45 is owned and used by the University of Hawaii.

Source: State of Hawaii Harbors Division.

**Kewalo Basin.** Kewalo Basin is located approximately one mile east of the Fort Armstrong Channel in Honolulu and is adjacent to Ala Moana Boulevard. Kewalo Basin's facilities are used primarily for the mooring of sightseeing, commercial, charter fishing, commercial fishing and small cruising vessels. One hundred sixty-eight commercial fishing boats, 34 charter boats and 24 cruise vessels currently use Kewalo Basin's facilities. The land underlying Kewalo Basin has been transferred to the HCDA, but the Department operates the harbor facilities located there and expects to continue to do so. See "SOURCES OF REVENUES - Other Matters Potentially Affecting Revenues: Ceded Lands."

**Kalaeloa Barbers Point Harbor.** Kalaeloa Barbers Point Harbor is located at Kalaeloa, which is approximately 20 miles west of downtown Honolulu, adjacent to the privately-owned Campbell Industrial Park. The harbor's entrance channel is 42 feet deep, and the basin is 38 feet deep. The harbor facilities include a 1,930 foot concrete pier with a 35-acre paved back-up area, a 260-foot barge pier with a 4.4-acre back-up yard, a 36,000 square-foot transit shed, and a 150-foot service vessel pier. The harbor's primary operations include the transshipment of petroleum products, bulk cargo handling and ship repair. A bulk unloader, coal conveyor and cement storage facility, each of which are privately owned, are in operation. Proceeds of the Series 2002 Bonds will be used to provide additional berthing facilities. See "THE HARBOR SYSTEM - Capital Improvements Program."

Ninety percent of the cargo that is shipped through the Kalaeloa area flows through the privately operated off-shore mooring and fuel shipment facilities near the Kalaeloa Barbers Point Harbor. This cargo consists primarily of crude oil products shipped into refineries and refined fuel being shipped to neighbor island ports and out of the State. The Department does not receive any tariffs in connection with cargo that is shipped through the privately-operated off-shore mooring and fuel shipment facilities.

Kalaeloa Barbers Point Harbor was constructed to provide port facilities for Kapolei, the industrial and commercial development on the Ewa Plain west of Honolulu, which is presently being developed as Oahu's "Second City."

**Hilo Harbor.** Hilo Harbor is located on the northeast coast of the island of Hawaii, the largest island in the State, at the commercial center of the island. Hilo Harbor's basin measures approximately 2,300 feet by 1,400 feet and is 35 feet deep. Hilo Harbor has three piers, which primarily handle container and general cargo, petroleum products, lumber, cement, livestock and liquefied petroleum gas. Pier 1 has 1,250 feet of berthing space, 84,000 square feet of shed space, and a back-up area for container storage. Matson loads and unloads containers from its inter-island barges at Pier 1. Pier 1 also accommodates inter-island cruise ships. Young Brothers uses Pier 2 for inter-island barge operations. Pier 3 is used for transshipment of petroleum products, cement and general cargo and occasionally for small passenger ships.

**Kawaihae Harbor.** Kawaihae Harbor is located on the northwest coast of the island of Hawaii. Kawaihae Harbor's basin measures approximately 1,450 feet by 1,500 feet. The depth of the harbor is 35 feet, with the exception of the barge berth which has a depth of 20 to 24 feet. The Harbor's facilities include a 400-foot barge pier with 2,000 square feet of cargo sheds and a 1,150-foot pier with 13,000 square feet of cargo shed. The types of cargo that are primarily handled at Kawaihae Harbor are container and general cargo, bulk cement, lumber, steel, produce, petroleum products, bulk fertilizer, livestock, grain and lava cinders. Privately-owned petroleum products pipelines are available. Both Matson and Young Brothers provide regularly scheduled tug and barge service.

**Nawiliwili Harbor.** Nawiliwili Harbor is located near Lihue on the southeast coast of the island of Kauai. The harbor has three piers. Matson uses Pier 1 for inter-island barge cargo traffic and uses the nine-acre container yard. Pier 2 is used for berthing cruise ships and for handling petroleum products, sugar and molasses. Pier 2 has a total of 41,400 square feet of cargo shed space available. Nawiliwili Harbor's support facilities include ten pipelines for molasses, liquid fertilizer, petroleum products and cement and a bulk sugar loading tower with conveyor belts. Young Brothers uses the facility at Pier 3, which includes a 625-foot pier, a 150-foot roll-on roll-off ("Ro-Ro") pier and a 15-acre container yard with covered cargo shed. The facilities were designed both to accommodate existing demand and growth in such demand.

**Port Allen.** Port Allen Harbor is located on the south coast of Kauai. Port Allen Harbor's basin measures 1,200 feet by 1,500 feet and is 35 feet deep. This harbor has two piers, 1,200 feet of berthing space and a cargo shed of 35,000 square feet. Petroleum products constitute the principal cargo handled at Port Allen Harbor, for which pipelines are available. The United States Navy is a principal tenant, using the facilities in connection with its Pacific Missile Testing Range Facility operations. The piers are also used by excursion vessels.

***Kahului Harbor.*** Kahului Harbor is located along the northern shore of the island of Maui, near the commercial center of the island. Kahului Harbor's basin measures approximately 2,000 feet by 2,400 feet and is 35 feet deep. Kahului Harbor has three piers and a total berthing space of 3,019 linear feet. Pier 1 has 49,000 square feet of cargo shed space and is served by a bulk sugar loading gantry with conveyor belts. Pier 1 is used for containerized cargo, petroleum products, bulk shipment of raw sugar, molasses and liquid fertilizer and by cruise ships. Pier 2, which has two cargo sheds totalling 39,500 square feet and nine acres of open storage area, is used by Young Brothers for inter-island barge cargo traffic. Pier 3 is a Ro-Ro facility for inter-island cargo and also provides berths for commercial fishing vessels and fuel barges. Kahului Harbor has seven pipelines, including privately-owned cement and petroleum product pipelines.

***Kaunakakai Harbor.*** Kaunakakai Harbor is located on the south central coast of the island of Molokai, near the population center of the island. Kaunakakai Harbor's basin has a depth of 23 feet. Kaunakakai Harbor has one 700-foot barge pier, 7,500 square feet of cargo shed space and 125,000 square feet for open cargo storage. Kaunakakai Harbor has a privately-operated fuel transfer pipeline.

***Kaunapali Harbor.*** Kaunapali Harbor is the only commercial harbor on the island of Lanai. The Department of Transportation recently acquired the harbor from Lanai Company Inc., a subsidiary of Castle & Cooke, Inc. By acquiring this area, the State is able to cost-share federal improvements by the Corps of Engineers for the reconstruction of an existing breakwater which was damaged by Hurricanes Iwa and Iniki.

### **Capital Improvements Program**

Every other fiscal year, the Department prepares for the Governor's approval a capital improvements program for the next six fiscal years, describing ongoing and proposed Harbor System capital improvement projects that the Department proposes to undertake during that period. After the Governor's review, the current two fiscal year's expenditures for capital improvement projects for the Harbor System are submitted to the Legislature as a part of the Administration's biennium budget. The Legislature reviews the biennium budget in detail and authorizes all or a portion of the biennium budget by individual capital improvement project. Subsequently, during the first year of a biennium budget period, the Department may revise the second year of that biennium budget for presentation to the Governor for approval and to the Legislature for supplemental authorization. The approved capital improvement projects are collectively described as the "Capital Improvements Program."

Authorization of a capital improvement project by the Legislature as a part of the biennium budget includes the appropriation of moneys from a designated source to pay for all or a portion of the project. Since the Legislature only appropriates for a two-year period, appropriations to complete capital improvement projects extending beyond that period must be approved by subsequent Legislatures. An appropriation of state funds to match federal funds does not lapse.

The Legislature can appropriate funds for Harbor System capital improvement projects from five sources: bonds (either general obligation bonds, reimbursable general obligation bonds or revenue bonds), federal funds, the State general fund, special funds and private contributions (such as private development impact fees). The Legislature also authorizes the issuance of bonds to fund the appropriation for which bond funds are designated as the source for payment of a capital improvement project.

The Capital Improvements Program includes many capital improvement projects in the preliminary planning or land acquisition stage, as well as capital improvements projects in various stages of completion. As the Capital Improvements Program is continuously developed and revised annually, the individual capital improvement projects included in the Capital Improvements Program undergo many changes in scope, priority, timing and costs. The current Capital Improvements Program for fiscal years 2002 through 2007 provides authorization for completion of previously approved capital improvement projects and new capital improvement projects. The third through sixth fiscal years of this Capital Improvements Program include certain additional capital improvement projects which have not yet been authorized.

Capital improvement projects included in the Capital Improvements Program for fiscal years 2002 through 2007 total \$182,240,000, of which \$132,800,000 is programmed to be financed with revenue bonds. Of this amount, the Legislature has authorized the issuance of \$42,800,000 in revenue bonds.

## Summary of Financial Information

**General.** The Harbors Division maintains its accounting records on a modified cash basis of accounting whereby revenues are recognized when billed and expenses are recognized when paid. In order to prepare its annual financial statements on an accrual basis of accounting, adjustments are made to convert the accounting records from a modified cash basis to an accrual basis. The annual financial statements of the Harbors Division, including those presented in Appendix A, are audited by independent auditors retained by the State Auditor for the Harbors Division. The most recent fiscal year for which audited financial statements are available is the fiscal year ended June 30, 2001.

A number of adjustments are required to convert the accounting records from the modified cash basis of accounting to the accrual basis of accounting. They include adjustments to revenues and accrual of expenses, capitalization of harbor facilities, amortization of bond related costs, accrual of interest on general obligation bonds and revenue bonds, adjustment to allowance for doubtful accounts, adjustment to accumulated vacation, and determination of depreciation expense. In addition, it is necessary to reclassify amounts for financial statement reporting purposes.

Certain unaudited financial information included in this Official Statement has been prepared on a modified cash basis for the six months ended December 31, 2001 and 2000. Due to the nature and extent of the adjustments and reclassifications which are required to convert the accounting records of the Harbors Division to the accrual basis of accounting, and because many adjustments made for a period of less than a fiscal year would not be required or would change in making the annual adjustments, management of the Harbors Division believes that the presentation of financial information for the Harbors Division on a modified cash basis of accounting for these interim periods is not comparable to the annual audited financial statements of the Harbors Division presented on an accrual basis of accounting.

**Historical Operations.** Table 10 sets forth the sources of operating revenues and operating expenses of the Harbor System for fiscal years 1997 through 2001.

**TABLE 10**  
**STATEMENT OF HISTORICAL OPERATIONS**  
**Fiscal Years Ended June 30**  
**(000's Omitted)**

	Fiscal Year Ended June 30				
	1997	1998	1999	2000	2001
<b>OPERATING REVENUES</b>					
Services					
Wharfage	\$26,723	\$31,460	\$30,203	\$32,436	\$34,038
Dockage	3,243	3,904	3,664	3,810	4,131
Service charges	1,125	965	1,014	964	1,026
Demurrage	893	1,720	1,261	1,463	1,781
Mooring charges	994	1,053	1,052	1,111	1,061
Cleaning wharves	69	66	95	74	79
Others	43	1	10	14	16
Total services	<u>\$33,090</u>	<u>\$39,169</u>	<u>\$37,299</u>	<u>\$39,872</u>	<u>\$42,132</u>
Rentals					
Wharf space and land	13,500	\$15,500	\$16,552	\$15,410	\$17,362
Storage	2,036	2,389	2,231	2,797	2,606
Pipelines	1,600	2,052	1,912	2,191	2,107
Auto parking	1,343	1,317	1,306	1,261	1,205
Total rentals	<u>\$18,479</u>	<u>\$21,258</u>	<u>\$22,001</u>	<u>\$21,659</u>	<u>\$23,280</u>
Other Revenues					
Sale of utilities	\$415	\$485	\$495	\$534	\$622
Permits to vendors	410	389	472	528	584
Miscellaneous	115	254	713	12	120
Total other revenues	<u>\$940</u>	<u>\$1,128</u>	<u>\$1,680</u>	<u>\$1,074</u>	<u>\$1,326</u>
<b>Total Operating Revenues</b>	<b><u>\$52,509</u></b>	<b><u>\$61,555</u></b>	<b><u>\$60,980</u></b>	<b><u>\$62,605</u></b>	<b><u>\$66,738</u></b>
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>					
Personal services	\$8,567	\$9,295	\$9,859	\$8,570	\$8,111
Harbor operations, maintenance and general administration	10,274	12,961	10,541	11,022	16,350
State of Hawaii surcharge for central service expenses	1,697	1,955	1,845	1,872	2,388
Fireboat operations	1,301	1,266	1,529	1,258	1,086
Department of Transportation, administrative expense	682	825	962	1,067	978
Total Operating Expenses Before Depreciation	<u>\$22,521</u>	<u>\$26,302</u>	<u>\$24,736</u>	<u>\$23,789</u>	<u>\$28,913</u>
<b>INCOME FROM OPERATIONS BEFORE DEPRECIATION</b>	<b><u>\$29,988</u></b>	<b><u>\$35,253</u></b>	<b><u>\$36,244</u></b>	<b><u>\$38,816</u></b>	<b><u>\$37,825</u></b>

**Historical Debt Service Coverage.** Table 11 presents a summary of Revenues and debt service coverage on outstanding Bonds and 1990 Certificate Harbor Revenue Bonds for fiscal years 1997 through 2001, and for the six month periods ended December 31, 2000 and December 31, 2001. The figures for operating revenues and operating expenses before depreciation are taken from the audited financial statements for each fiscal year. The adjustments and calculations performed to determine debt service coverage are in accordance with the provisions of the certificates providing for the issuance of such bonds.

**TABLE 11**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**Fiscal Years Ended June 30**  
**(000's Omitted)**

	Fiscal Year Ended June 30					(Unaudited) Six months ended December 31*	
	1997	1998	1999	2000	2001	2001	2000
OPERATING REVENUES							
Services	\$33,090	\$39,169	\$37,299	\$39,872	\$42,132	\$21,623	\$20,850
Rentals	18,479	21,258	22,001	21,659	23,280	10,763	11,377
Other revenues	940	1,128	1,680	1,074	1,326	498	462
Total Operating Revenues	<u>\$52,509</u>	<u>\$61,555</u>	<u>\$60,980</u>	<u>\$62,605</u>	<u>\$66,738</u>	<u>\$32,884</u>	<u>\$32,689</u>
OPERATING EXPENSES BEFORE DEPRECIATION	\$22,521	\$26,302	\$24,736	\$23,789	\$28,913	\$13,461	\$12,091
INCOME FROM OPERATIONS BEFORE DEPRECIATION	\$29,988	\$35,253	\$36,244	\$38,816	\$37,825	\$19,423	\$20,598
ADD <sup>1</sup> :							
Interest income <sup>2</sup>	\$2,987	\$4,104	\$3,748	\$6,326	\$8,615	\$2,619	\$4,678
State of Hawaii surcharge for central services <sup>3</sup>	1,697	1,955	1,845	1,872	2,388	\$1,050	\$1,053
REVENUES AVAILABLE FOR DEBT SERVICE	<u>\$34,672</u>	<u>\$41,312</u>	<u>\$41,837</u>	<u>\$47,014</u>	<u>\$48,828</u>	<u>\$23,092</u>	<u>\$26,329</u>
CAPITAL IMPROVEMENT BOND DEBT SERVICE COVERAGE							
Capital Improvement Bond Debt Service <sup>4</sup>	\$2,594	---	---	---	---	---	---
Capital Improvement Bond Debt Service Coverage <sup>5</sup>	13.37x	---	---	---	---	---	---
NET REVENUES AVAILABLE FOR 1990 CERTIFICATE HARBOR REVENUE BONDS AND THE BONDS	\$32,078	\$41,312	\$41,837	\$47,014	\$48,828	\$23,092	\$26,329
DEBT SERVICE COVERAGE UNDER 1990 CERTIFICATE							
Harbor Revenue Bond Debt Service	\$13,075	\$13,346	\$13,346	\$13,345	\$10,369	\$5,105	\$4,921
Harbor Revenue Bond Debt Service Coverage <sup>6</sup>	2.45x	3.10x	3.13x	3.52x	4.71x	4.52x	5.35x
DEBT SERVICE COVERAGE UNDER 1997 CERTIFICATE							
Aggregate Debt Service	\$16,444	\$16,815	\$16,806	\$18,002	\$20,221	\$9,851	\$9,847
Aggregate Debt Service Coverage <sup>7</sup>	1.95x	2.46x	2.49x	2.61x	2.41x	2.34x	2.67x
REIMBURSABLE GENERAL OBLIGATION BOND DEBT SERVICE <sup>8</sup>	\$925	\$849	\$828	\$849	\$849	\$207	\$220

\* Operating expenses for the six months ended December 31, 2001 and 2002 are presented on a modified cash basis.

<sup>1</sup> In accordance with the definition of Revenues set forth in the Certificate.

<sup>2</sup> Excludes direct financing leases.

<sup>3</sup> The State assesses a surcharge of 5% for central services expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year.

<sup>4</sup> No longer outstanding.

<sup>5</sup> The figures and coverage are presented by the Department based on the rate covenant under the Capital Improvement Certificate of 1.50 times the debt service requirement for the Capital Improvement Bonds.

<sup>6</sup> Net Revenues less Capital Improvement Bond debt service divided by 1990 Certificate Harbor Revenue Bond debt service based on the Rate Covenant of 1.35 times the debt service requirement for the 1990 Certificate Harbor Revenue Bonds.

<sup>7</sup> Net Revenues divided by aggregate debt service based on the Rate Covenant of 1.25 times the debt service requirement for the Bonds and the 1990 Certificate Harbor Revenue Bonds.

<sup>8</sup> The Department is required to reimburse the State general fund for debt service on these bonds from Revenues.

## **Management Discussion and Analysis**

**Revenues.** Revenues include operating revenues and interest income that is included in Net Revenues. Revenues for fiscal years 2001, 2000, 1999 and 1998 were \$75.3 million, \$68.9 million, \$64.6 million and \$65.6 million, respectively. Revenues increased 9.3 % in 2001 from 2000 and increased 6.5% in 2000 from 1999. Revenues decreased 1.4% in 1999 from 1998. The increases over the last two years resulted from improvements in the economy.

**Expenses.** Operating expenses for fiscal years 2001, 2000, 1999 and 1998 were \$28.9 million, \$23.8 million, \$24.7 million and \$26.3 million, respectively. Operating expenses increased significantly to 21.5% in fiscal year 2001 due to an increase to the Accounts Receivable Reserve For Bad Debts and an increase in special maintenance expenditures.

Operating expenses include amounts paid by the Harbors Division to OHA in 2000 and 2001 for the use of Ceded Lands at the Harbor System. As calculated by the Department, the total OHA payment amounted to \$5,459,314 for fiscal year 2001, \$5,519,378 for fiscal year 2000, \$5,198,563 for fiscal year 1999 and \$4,934,567 for fiscal year 1998. See "SOURCES OF REVENUES - Other Matters Potentially Affecting Net Revenues; Ceded Lands".

**Forecast for Fiscal Year 2002.** Revenues including operating revenues and interest income for fiscal year 2002 are forecast to be \$67.4 million. Revenues for fiscal year 2001 were \$75.3 million. Revenues are forecast to decrease by \$7.9 million or 10.4% in 2002 from 2001, due to anticipated decrease in investment interest income due to a decline in interest rates. There has also been a slight decrease in services revenues since September 11, 2001.

Operating expenses for fiscal year 2002 are forecast to be \$27.0 million. Expenses for fiscal year 2001 were \$28.9 million. Expenses are forecast to decrease by \$1.9 million or 6.5% in 2002 from 2001. Expenses were lower in 2001 due to decrease in Harbors operations, maintenance and general administration expenses.

**Employee Benefits.** All full-time employees of the Department are required to participate in the employees retirement system of the State and are entitled to health care and life insurance benefits afforded to all State employees on a non-discriminatory basis. Department employees hired after June 30, 1984 participate in a non-contributory retirement plan. Employees hired before that date were given the option of remaining in a contributory retirement plan or joining the new non-contributory plan. Employee benefits for employees of the Harbors Division are an operating expense of the Harbors Division. The actuarially determined employer contribution requirements were met as of June 30, 2001.

## **INDEBTEDNESS**

### **Harbor Revenue Bonds Issued Under the 1990 Certificate**

At the time the present Certificate took effect on March 1, 1997, five series of Harbor Revenue Bonds aggregating \$161,070,000 had been issued pursuant to the 1990 Certificate. The 1990 Certificate Harbor Revenue Bonds have a lien against Revenues of the Harbor System that is prior and paramount to the Bonds, including the Series 2002 Bonds. See "SECURITY FOR THE BONDS." As of the date hereof, \$86,835,000 in principal amount of 1990 Certificate Harbor Revenue Bonds are outstanding, of which \$4,805,000 are scheduled to mature on July 1, 2002 and \$23,495,000 are expected to be refunded with Series 2002 Bonds. See "PLAN OF FINANCING." The Department has covenanted not to issue additional Harbor Revenue Bonds under the 1990 Certificate.

### **Bonds Issued Under the Certificate**

As of the date hereof, \$54,745,000 in principal amount of Harbor System Revenue Bonds, Series of 1997 and \$74,095,000 in principal amount of Harbor System Revenue Bonds, Series of 2000, are outstanding, and upon issuance of the Series 2002 Bonds, \$153,260,000 aggregate principal amount of Bonds will be outstanding under the Certificate. The Bonds are payable from Revenues after payment of Harbor Revenue Bonds under the 1990 Certificate. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE." The Department expects to fund all its future capital improvement needs with proceeds of Bonds issued under the Certificate or with funds derived from sources other than indebtedness.

### **Reimbursable General Obligation Bonds**

As of the date hereof, \$697,192 in principal amount of reimbursable general obligation bonds issued for the Harbor System are outstanding, of which \$470,340 are scheduled to mature on July 1, 2002. These bonds are general obligation bonds of the State, but since the proceeds of these bonds were used to finance improvements to the Harbor System, the Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds from the Revenues. Reimbursement is made from the Revenues after the payment of the costs of operation, maintenance and repair of the Harbor System, the credits to the accounts in the Harbor Revenue Special Fund and payments for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Harbor System. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE." The State does not presently intend to issue additional reimbursable general obligation bonds for the Harbor System.

### **Special Facility Revenue Bonds**

The Legislature authorized \$100,000,000 of special facility revenue bonds in Part II of Chapter 266, HRS. There are presently outstanding \$16,500,000 in principal amount of bonds issued to refund special facility revenue bonds issued to finance construction of facilities at Honolulu Harbor leased to Matson Terminals, Inc. Such special facility revenue refunding bonds are payable solely from the revenues derived from the leasing of such facilities. The State is not currently contemplating the issuance of any other special facility revenue bonds for facilities in the Harbor System.

### **Summary of Debt Service**

Table 12 sets forth the principal and interest requirements for the outstanding 1990 Certificate Harbor Revenue Bonds, the 1997 Certificate Bonds, including the Series 2002 Bonds and Reimbursable General Obligation Bonds following issuance of the Series 2002 Bonds. Table 12 does not include any requirements for previously issued Special Facility Revenue Bonds, since Revenues are not pledged to their repayment. Debt service requirements for such bonds have been calculated, and are set forth, as if payments made on July 1 are paid in the prior Fiscal Year.

**TABLE 12  
DEBT SERVICE TABLE**

Fiscal Year Ending July 1	Debt Service on		Total Debt Service on		Series A and B of 2002 Bonds	Total Debt Service		Total Reimbursable		Grand Total
	Outstanding Bonds under 1990 Certificate*	Outstanding Bonds under 1997 Certificate**	Outstanding Bonds under 1997 Certificate**	Under 1997 Certificate		G.O. Debt Service	G.O. Debt Service			
2002	\$9,461,975.00		\$9,493,416.26	\$635,985.63		\$10,129,401.89	\$501,267.41		\$20,092,644.30	
2003	7,039,495.00		9,490,991.26	3,033,742.50		12,524,733.76	87,379.57		19,651,608.33	
2004	7,042,435.00		9,497,881.26	3,037,942.50		12,535,823.76	25,585.74		19,603,844.50	
2005	7,060,195.00		9,493,101.26	3,042,967.50		12,536,068.76	25,252.33		19,621,516.09	
2006	7,065,617.50		9,499,176.26	3,040,167.50		12,539,343.76	24,919.65		19,629,880.91	
2007	7,067,917.50		9,502,597.50	3,046,167.50		12,548,765.00	24,584.39		19,641,266.89	
2008	7,075,710.00		9,507,785.00	3,055,142.50		12,562,927.50	24,239.92		19,662,877.42	
2009	5,387,700.00		10,246,590.00	1,153,962.50		11,400,552.50	23,696.19		16,811,948.69	
2010	5,393,012.50		10,266,432.50	1,159,025.00		11,425,457.50	12,356.58		16,830,826.58	
2011	5,400,512.50		10,273,745.00	1,151,275.00		11,425,020.00	11,793.36		16,837,325.86	
2012	2,824,262.50		12,873,520.00	1,152,525.00		14,026,045.00	759.59		16,851,067.09	
2013	2,824,887.50		12,911,220.00	1,127,275.00		14,038,495.00			16,863,382.50	
2014	2,825,512.50		10,061,695.00	1,103,725.00		11,165,420.00			13,990,932.50	
2015	2,825,825.00		10,114,495.00	1,064,625.00		11,179,120.00			14,004,945.00	
2016	2,825,512.50		10,120,350.00	1,050,800.00		11,171,150.00			13,996,662.50	
2017	2,827,237.50		9,958,592.50	1,235,875.00		11,194,467.50			14,021,705.00	
2018	2,827,268.76		7,924,217.50	3,283,850.00		11,208,067.50			14,035,336.26	
2019	2,825,287.50		7,935,917.50	3,291,600.00		11,227,517.50			14,052,805.00	
2020	2,825,975.00		10,141,165.00			10,141,165.00			12,967,140.00	
2021	2,823,693.76		10,154,450.00			10,154,450.00			12,978,143.76	
2022	2,828,125.00		10,157,650.00			10,157,650.00			12,985,775.00	
2023	2,823,312.50		5,677,862.50			5,677,862.50			8,501,175.00	
2024	2,824,256.26		5,679,337.50			5,679,337.50			8,503,593.76	
2025			5,677,725.00			5,677,725.00			5,677,725.00	
2026			5,682,462.50			5,682,462.50			5,682,462.50	
2027			5,687,437.50			5,687,437.50			5,687,437.50	
2028			1,671,812.50			1,671,812.50			1,671,812.50	
2029			1,670,850.00			1,670,850.00			1,670,850.00	
Total	\$104,725,726.28	\$241,372,476.30	\$241,372,476.30	\$35,666,653.13		\$277,039,129.43	\$761,834.73		\$382,526,690.44	

\* Excludes bonds to be refunded by Series A and B of 2002 Bonds.

\*\* Does not include debt service on Series A and B of 2002 Bonds.

## **LITIGATION**

Certain litigation is described herein under "SOURCES OF REVENUES – Other Matters Potentially Affecting New Revenues – Ceded Lands."

In addition, the State is subject to litigation in connection with the day-to-day operations of the Harbor System by the Department. There is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the Series 2002 Bonds or the power and authority of the Department to impose, prescribe or collect rates, rentals, fees or charges for the use and services of, and the facilities or commodities furnished by, the Harbor System, or in any manner questioning the power and authority of the Department to impose, prescribe or collect such rates, rentals, fees or charges or to issue and deliver the Series 2002 Bonds or affecting the validity of the Series 2002 Bonds.

## **TAX MATTERS**

In the opinion of Pillsbury Winthrop LLP, Bond Counsel, for federal income tax purposes under existing laws, regulations, rulings, judicial decisions and other authorities, all as in effect on the date of the opinion ("Existing Law") and assuming compliance with the tax covenants and the material accuracy of the tax representations that are described herein under the heading "Certain Matters Affecting the Opinion of Bond Counsel," (i) interest on the Series 2002A Bonds is excludable from the gross income of the owners thereof pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code; however, such amounts are included in the adjusted current earnings of certain corporations for purposes of computing the corporate alternative minimum tax, and (ii) interest on the Series 2002B Bonds is excludable from the gross income of the owners thereof pursuant to Section 103(a) of the Code but is treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed on corporations, individuals and other taxpayers under the Code. No opinion is expressed as to the exclusion of interest on any Series 2002 Bonds for any period during which such bond is held by a person who is a substantial user of the facilities financed or refinanced from the proceeds of the Series 2002 Bonds or by a related person as defined in Section 147(a) of the Code.

In the further opinion of Bond Counsel, under the existing laws of the State, interest on the Series 2002 Bonds is exempt from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2002 Bonds or income therefrom.

### **Certain Matters Affecting the Opinion of Bond Counsel**

The Code establishes certain requirements which must be met subsequent to the issuance and delivery of the Series 2002 Bonds in order that interest on the Series 2002 Bonds be and remain excludable from gross income for federal income tax purposes under Section 103(a) of the Code. These requirements relate, among other things, to the use, investment and expenditure of the proceeds of each series of the Series 2002 Bonds, the use of the proceeds of the Series 2002 Bonds and the character and nature of the use, of the facilities that were financed and refinanced thereby, and to the requirement that certain investment earnings be rebated to the federal government. Noncompliance with such requirements may result in the inclusion of interest on the Series 2002 Bonds in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Series 2002 Bonds, without regard to when noncompliance occurs or is ascertained. The Department has covenanted to comply with certain applicable requirements of the Code to the assure the exclusion of the interest on the Series 2002 Bonds from the gross income of the holders thereof for federal income tax purposes. The Department has also made representations in the tax agreement to be delivered on the date of issue of the Series 2002 Bonds (the "Tax Agreement") concerning the foregoing matters. Bond Counsel will have rendered its opinions in reliance on the Department complying with the foregoing covenants and upon the material accuracy of the foregoing representations.

Bond Counsel has not undertaken to advise in the future whether any actions or events after the date of issuance of the Series 2002 Bonds may affect the federal or state income tax status of interest on the Series 2002 Bonds or the tax consequences of ownership thereof. In addition, no assurance can be given that future legislation, including amendments to the Code, or changes in the interpretation thereof if enacted into law, or otherwise promulgated or announced, will not contain provisions which could disallow or directly or indirectly reduce the benefit of the excludability of the interest on the Series 2002 Bonds from the gross income of the owners thereof for federal income tax purposes. Without limiting the generality of the foregoing, Bond Counsel expresses no opinion as to any law consequences with respect to the Series 2002 Bonds or the interest thereon, if any subsequent action is taken or omitted to be taken with respect to the Series 2002 Bonds or the proceeds thereof upon the advice or approval of any other bond counsel.

### **Other Matters**

Bond Counsel will have rendered tax opinions regarding the federal income tax consequences of the ownership of the Series 2002 Bonds only to the effect that interest on the Series 2002 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is treated as a preference item for purposes of the federal alternative minimum tax as described hereinabove and as to the exemption pursuant to the State statutes of interest on the Series 2002 Bonds from all taxation by the State and any county or any political subdivision thereof, except inheritance, transfer and estate taxes and except to the extent the franchise tax imposed by the laws of the State on banks and other financial institutions may be measured with respect to the Series 2002 Bonds or income therefrom. Bond Counsel expresses no opinion as to any other federal, state, local or foreign tax consequences of owning the Series 2002 Bonds.

Nevertheless, a Bondholder's federal tax liability may otherwise be affected by the ownership or disposition of the Series 2002 Bonds. The nature and extent of these other tax consequences will depend on the Bondholder's status and its other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2002 Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2002 Bonds, or in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2002 Bonds; (ii) with respect to life insurance companies, life insurance company taxable income subject to the tax imposed by Section 801 of the Code is determined by permitting deductions for certain dividends received but not to the extent such a dividend is from a non-insurance corporation and is out of tax-exempt interest, such as interest on the Series 2002 Bonds; (iii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including tax-exempt interest, such as interest on the Series 2002 Bonds; (iv) interest on the Series 2002 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (v) passive investment income, including interest on the Series 2002 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if more than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income; (vi) Section 86 of the Code requires recipients of certain Social Security or Railroad Retirement benefits to take into account receipts of accruals of interest on the Series 2002 Bonds owned by them in determining the taxability of such benefits and (vii) under Section 32(i) of the Code, the receipt of investment income, including interest on the Series 2002 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such consequences.

The foregoing discussion of selected federal income tax matters with respect to the Series 2002 Bonds does not purport to deal with all aspects of federal taxation that could be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2002 Bonds.

### **Risk of Audit by Internal Revenue Service**

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the

Service will commence an audit of the Series 2002 Bonds. If an audit is commenced, under current procedures the Service is likely to treat the State as the taxpayer and the owners of the Series 2002 Bonds may have no right to participate in such procedure.

Bond Counsel's opinion represents its legal judgment based upon its review of existing law, regulations, rulings, judicial decisions, and other authorities, and upon the covenants and representations of the parties and such other facts as it has deemed relevant to render such opinion, and is not a guarantee of a result. Neither the Underwriters nor Bond Counsel are obligated to defend the tax-exempt status of the Series 2002 Bonds. None of the Department, the State or Bond Counsel is responsible to pay or reimburse the costs of any owner with respect to any audit or litigation relating to the Series 2002 Bonds.

#### **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, issuance and sale of the Series 2002 Bonds are subject to the approval of Pillsbury Winthrop LLP, Bond Counsel for the State. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Series 2002 Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix E hereto. Certain legal matters will be passed upon for the State by the Attorney General of the State and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, San Francisco, California.

#### **RATINGS**

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services are expected to assign ratings of "AAA," "Aaa" and "AAA," respectively, to the Series 2002 Bonds, with the understanding that upon delivery of such Bonds, the Policy and the Reserve Policy will be issued by the Insurer. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies furnishing the same, at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Moody's Investors Service, 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

#### **ESCROW VERIFICATION**

Causey Demgen & Moore Inc., an independent certified public accountant, has been retained to verify the mathematical accuracy of the computations concerning the adequacy of the maturing principal amounts of and interest earned on the Federal Securities, together with other moneys, to be placed in the Trust Fund to pay when due pursuant to stated maturity or call for redemption the principal of and interest and premium on the Refunded Bonds. Such verification shall be based in part upon information supplied by the Underwriters.

#### **UNDERWRITING**

The Series 2002 Bonds are being purchased by the Underwriters pursuant to a bond purchase contract between the Underwriters and the Department, pursuant to which the State has agreed to sell, and the Underwriters have agreed to purchase, such Series 2002 Bonds at an aggregate purchase price of \$24,301,045.33, plus accrued interest, reflecting an underwriting discount of \$247,455.82. Such bond purchase contract provides that the Underwriters' obligation to purchase such Series 2002 Bonds is predicated on the satisfaction of certain terms and conditions set forth therein, including the approval of certain legal matters by counsel. The Underwriters will be obligated to purchase all of the Series 2002 Bonds if any are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2002 Bonds to the public. Such Bonds may be offered and sold to certain dealers (including dealers depositing Series 2002 Bonds into investment trusts) at prices lower than the public offering prices appearing on the cover hereof and the public offering prices may be changed from time to time.

#### **LEGALITY FOR INVESTMENT**

The Series 2002 Bonds are legal investments for the funds of all public officers and bodies and all political subdivisions of the State, and for the funds of all insurance companies and associations, banks, savings banks, savings institutions, including building or savings and loan associations, trust companies, personal representatives, guardians, trustees and all other persons and fiduciaries in the State who are regulated by law as to the character of their investment.

The Series 2002 Bonds may be deposited by banks with the Director of Finance as security for State moneys deposited in such banks.

#### **CONTINUING DISCLOSURE**

Not later than the date of issuance of the Series 2002 Bonds, the Department will enter into a supplement to its Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Series 2002 Bonds to provide certain financial information and operating data relating to the Department to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. §240.15c2-12) the "Rule"). A form of the Continuing Disclosure Certificate and a proposed form of the Second Supplement to such certificate are attached hereto as Appendix D.

A failure by the Department to comply with the Continuing Disclosure Certificate will not constitute an event of default of the Bonds, although any Bondholder or any beneficial owner may bring action to compel the Department to comply with its obligations under the Continuing Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale. The Department has never failed to comply with any previous undertaking under the Rule.

#### **FINANCIAL STATEMENTS**

The financial statements of the Harbors Division as of and for the years ended June 30, 2001 and June 30, 2000 are included in Appendix A hereto. The financial statements were audited by Nishihama & Kishida, CPA's, Inc., independent auditors, as stated in their report appearing therein.

#### **MISCELLANEOUS**

The references herein to Acts of the Legislature or the Certificate (including the supplements thereto) do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Department has provided the information in this Official Statement relating to the Harbors Division, and other matters, as indicated.

As far as any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the Series 2002 Bonds.

DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII

By /s/ Brian K. Minaai  
Director

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**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS**

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**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
HARBORS DIVISION**

**Financial Statements and Schedules of the Public Undertaking  
Fiscal Years Ended June 30, 2001 and 2000  
(With Independent Auditors' Report Thereon)**

**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
HARBORS DIVISION**

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**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
HARBORS DIVISION**

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## INDEPENDENT AUDITORS' REPORT

To the Director  
Department of Transportation  
State of Hawaii

We have audited the accompanying balance sheets of the Harbors Division, Department of Transportation of the State of Hawaii, relating to the Public Undertaking (Harbors Division) as of June 30, 2001 and 2000, and the related statements of operations, retained earnings, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the management of the Harbors Division. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements present only the activities of the Harbors Division and are not intended to present fairly the financial position of the State of Hawaii and the results of its operations, and the cash flows of its proprietary fund type in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbors Division as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note N to the financial statements, the State of Hawaii is a defendant in a lawsuit filed by the Office of Hawaiian Affairs (OHA) related to the inclusion of certain proprietary revenues received by the State of Hawaii through the Harbors Division in the determination of ceded lands payments due to OHA.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2001, on our consideration of the Harbors Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit for the fiscal year ended June 30, 2001, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 9 for the fiscal year ended June 30, 2001, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole for the fiscal year ended June 30, 2001.

*Nishihama & Kishida, CPAs, Inc.*

Honolulu, Hawaii  
November 16, 2001

State of Hawaii  
Department of Transportation  
Harbors Division  
**BALANCE SHEETS OF THE PUBLIC UNDERTAKING**  
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 72,592,326	\$ 57,846,494
Receivables		
Accounts receivable, less allowance for doubtful accounts of \$6,032,000 in 2001 and \$2,870,000 in 2000	4,797,330	6,946,060
Interest	1,874,619	1,945,232
Due from other government	1,191,640	1,191,640
Materials and supplies, at cost	46,966	46,033
Prepaid insurance and others	<u>132,918</u>	<u>20,108</u>
Total current assets	<u>80,635,799</u>	<u>67,995,567</u>
<b>RESTRICTED ASSETS</b>		
Current		
Cash and cash equivalents, including time certificates of deposit and repurchase agreements of \$20,210,500 in 2001 and \$25,601,047 in 2000 (Notes B and C)	76,025,007	95,204,688
Investments in time certificates of deposit (Notes B and C)	<u>--</u>	<u>493,400</u>
Total current restricted assets	76,025,007	95,698,088
Net investment in direct financing lease (Note F)	<u>18,512,592</u>	<u>18,386,109</u>
Total restricted assets	\$ <u>94,537,599</u>	\$ <u>114,084,197</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**BALANCE SHEETS OF THE PUBLIC UNDERTAKING (Continued)**  
**June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
<b>HARBOR FACILITIES</b>		
Land and land improvements	\$ 324,877,182	\$ 323,428,539
Wharves	177,801,640	171,940,543
Other improvements	73,637,342	73,594,405
Buildings	41,901,935	40,815,787
Equipment	<u>10,985,604</u>	<u>11,117,435</u>
	629,203,703	620,896,709
 Less accumulated depreciation	 <u>119,387,708</u>	 <u>108,527,627</u>
	509,815,995	512,369,082
 Construction in progress	 <u>52,664,180</u>	 <u>24,790,438</u>
	<u>562,480,175</u>	<u>537,159,520</u>
 <b>OTHER ASSET</b>		
Unamortized bond issue costs	<u>2,451,668</u>	<u>2,568,805</u>
	 <u>\$ 740,105,241</u>	 <u>\$ 721,808,089</u>

State of Hawaii  
Department of Transportation  
Harbors Division  
**BALANCE SHEETS OF THE PUBLIC UNDERTAKING (Continued)**  
June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES (payable from current assets)</b>		
Accounts payable	\$ 1,356,826	\$ 794,231
Contracts payable, including retainages	537,226	442,841
Accrued vacation	1,459,385	1,451,678
Payable to harbor user	1,024,613	--
Due to Department of Budget and Finance	<u>1,231,839</u>	<u>1,238,705</u>
Total current liabilities (payable from current assets)	<u>5,609,889</u>	<u>3,927,455</u>
<b>CURRENT LIABILITIES (payable from restricted assets)</b>		
Contracts payable, including retainages	3,540,331	2,114,450
Matured revenue bonds and interest payable	529,600	1,462,684
Revenue bonds payable, current maturities, less unamortized discount of \$261,989 in 2001 and \$269,237 in 2000 (Note D)	13,513,011	13,855,763
General obligation bonds payable, current maturities (Note G)	849,434	849,433
Accrued interest payable	6,520,587	5,737,901
Security deposits	2,249,640	2,254,985
Due to Department of Budget and Finance	<u>9,999,893</u>	<u>9,999,893</u>
Total current liabilities (payable from restricted assets)	<u>37,202,496</u>	<u>36,275,109</u>
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>		
Revenue bonds payable, less unamortized discount of \$3,359,088 in 2001 and \$3,621,076 in 2000, and unamortized deferred loss on refunding of \$3,083,773 in 2001 and \$3,339,910 in 2000 (Note D)	202,157,139	208,714,014
Special facility revenue bonds payable (Note F)	16,500,000	16,500,000
General obligation bonds payable (Note G)	<u>226,852</u>	<u>697,193</u>
Total long-term debt	<u>218,883,991</u>	<u>225,911,207</u>
Total liabilities	\$ <u>261,696,376</u>	\$ <u>266,113,771</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**BALANCE SHEETS OF THE PUBLIC UNDERTAKING (Continued)**  
**June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>FUND EQUITY</b>		
Contributed capital		
From federal government	\$ 56,801,524	\$ 56,801,524
From State of Hawaii	122,802,355	122,802,355
From other sources	<u>334,168</u>	<u>334,168</u>
	179,938,047	179,938,047
Less accumulated depreciation	<u>8,812,040</u>	<u>8,254,648</u>
Total contributed capital	<u>171,126,007</u>	<u>171,683,399</u>
Retained earnings		
Reserved for		
Bond requirements (Note E)	4,049,390	4,049,390
Other	<u>350,000</u>	<u>350,000</u>
Total reserved retained earnings	4,399,390	4,399,390
Unreserved	<u>302,883,468</u>	<u>279,611,529</u>
Total retained earnings	<u>307,282,858</u>	<u>284,010,919</u>
Total fund equity	<u>478,408,865</u>	<u>455,694,318</u>
	\$ <u>740,105,241</u>	\$ <u>721,808,089</u>

See accompanying notes to financial statements.

State of Hawaii  
Department of Transportation  
Harbors Division  
**STATEMENTS OF OPERATIONS OF THE PUBLIC UNDERTAKING**  
Fiscal Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>OPERATING REVENUES</b>		
Services	\$ 42,132,173	\$ 39,871,721
Rentals	23,279,652	21,658,700
Others	<u>1,325,907</u>	<u>1,074,898</u>
	<u>66,737,732</u>	<u>62,605,319</u>
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>		
Personal services	8,110,482	8,569,859
Harbor operations	7,577,610	7,362,505
Maintenance	4,029,037	2,046,884
State of Hawaii, surcharge for central service expenses	2,388,447	1,872,407
Fireboat operations	1,086,376	1,257,979
General administration	4,743,309	1,612,212
Department of Transportation, general administration expenses	<u>977,736</u>	<u>1,067,320</u>
	<u>28,912,997</u>	<u>23,789,166</u>
Income from operations before depreciation	<u>37,824,735</u>	<u>38,816,153</u>
<b>DEPRECIATION</b>		
On assets acquired with own funds	10,737,309	9,594,254
On assets acquired from contributions	<u>557,392</u>	<u>551,072</u>
	<u>11,294,701</u>	<u>10,145,326</u>
Income from operations	<u>26,530,034</u>	<u>28,670,827</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest income		
Time certificates of deposit and repurchase agreements	8,615,145	6,308,549
Investment in direct financing lease	1,075,233	1,074,369
Investments in U.S. Treasury obligations	--	17,337
Interest expense (Note H)		
Revenue bonds	(10,982,005)	(11,435,207)
Special facility revenue bonds	(948,750)	(948,750)
General obligation bonds	(54,909)	(75,841)
Amortization of bond discount, issue costs and loss on refunding	(642,510)	(594,628)
Loss on disposal of harbor facilities	(123,423)	(25,431)
Other, net	<u>270,345</u>	<u>205,864</u>
	<u>(2,790,874)</u>	<u>(5,473,738)</u>
<b>REFUND OF WHARFAGE FEES (NOTE J)</b>	<u>(1,024,613)</u>	<u>--</u>
<b>NET INCOME</b>	<u>\$ 22,714,547</u>	<u>\$ 23,197,089</u>

See accompanying notes to financial statements.

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF RETAINED EARNINGS OF THE PUBLIC UNDERTAKING**  
**Fiscal Years Ended June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
Retained earnings at beginning of fiscal year	\$ 284,010,919	\$ 260,262,758
Net income	22,714,547	23,197,089
Credit arising from transfer of depreciation to contributed capital	<u>557,392</u>	<u>551,072</u>
Retained earnings at end of fiscal year	\$ <u>307,282,858</u>	\$ <u>284,010,919</u>

See accompanying notes to financial statements.

State of Hawaii  
Department of Transportation  
Harbors Division  
**STATEMENTS OF CASH FLOWS OF THE PUBLIC UNDERTAKING**  
Fiscal Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>Cash flows from operating activities</b>		
Income from operations	\$ 26,530,034	\$ 28,670,827
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	11,294,701	10,145,326
Provision for doubtful accounts	3,162,000	620,000
Other nonoperating income, net	270,345	205,864
Changes in assets and liabilities		
(Increase) decrease in:		
Receivables	(1,013,270)	(555,431)
Materials and supplies	(933)	(6,896)
Prepaid insurance and others	(112,810)	--
Increase (decrease) in:		
Payables	555,729	(1,565,894)
Accrued vacation	7,707	6,621
Security deposits	<u>(5,345)</u>	<u>124,666</u>
Net cash provided by operating activities	<u>40,688,158</u>	<u>37,645,083</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(35,344,996)	(21,518,449)
Payments to refund revenue bonds	--	(52,596,906)
Bond issue costs paid	--	(1,131,798)
Principal paid on bonds	(8,828,424)	(3,715,278)
Interest paid on bonds	(11,202,978)	(13,177,138)
Proceeds from issuance of refunding revenue bonds	<u>--</u>	<u>79,229,752</u>
Net cash used in capital and related financing activities	<u>(55,376,398)</u>	<u>(12,909,817)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	--	(493,400)
Proceeds from sale and maturities of investments	493,400	39,789,784
Interest received on investments	<u>9,760,991</u>	<u>6,632,152</u>
Net cash provided by investing activities	<u>10,254,391</u>	<u>45,928,536</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,433,849)	70,663,802
Cash and cash equivalents at beginning of fiscal year	<u>153,051,182</u>	<u>82,387,380</u>
Cash and cash equivalents at end of fiscal year	\$ <u>148,617,333</u>	\$ <u>153,051,182</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**STATEMENTS OF CASH FLOWS OF THE PUBLIC UNDERTAKING (Continued)**  
**Fiscal Years Ended June 30, 2001 and 2000**

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Amortization of bond discount, issue costs and loss on refunding amounted to \$642,510 in 2001 and \$594,628 in 2000.

See accompanying notes to financial statements.

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE A - FINANCIAL REPORTING ENTITY**

In 1959, the Harbors Division was established within the Department of Transportation of the State of Hawaii (DOT) effective July 1, 1961. All functions and powers to administer, control and supervise all State of Hawaii (State) harbors and water navigational facilities were assigned to the Director of DOT on that date.

The Harbors Division is part of DOT which is part of the executive branch of the State. The Harbors Division's financial statements reflect only its portion of the proprietary fund type. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which includes the Harbors Division's financial activities.

The "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Capital Improvement Revenue Bonds," dated September 1, 1967 (1967 Certificate), "Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Revenue Bonds," dated November 15, 1990 (1990 Certificate), and "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (1997 Certificate), define the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control and management of the Harbors Division, except those principally used for recreation and the landing of fish.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) ***Measurement focus and basis of accounting*** - The accounting policies of the Harbors Division conform to generally accepted accounting principles as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Harbors Division has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The Harbors Division's operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (2) **Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (3) **Cash and cash equivalents** - Cash and cash equivalents, for the purpose of the statements of cash flows, includes all cash and investments with original maturities of three months or less. In 2001, cash and cash equivalents also includes investments of pooled cash balances. The State Director of Finance invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances are not reduced for these investments.
- (4) **Investments** - Unrestricted investments are recorded at cost. The resultant variance from generally accepted accounting principles, which provides for such investments to be valued at amortized cost, is not significant.

In accordance with the provisions of the 1990 Certificate and the 1997 Certificate, monies accumulated in the harbor debt service reserve and harbor reserve and contingency accounts are invested by the State Director of Finance. These investments are valued at the lower of face value or market. The resultant variance is not significant from generally accepted accounting principles, which provides for such investments to be valued at fair value for periods beginning after June 15, 1997.

- (5) **Accounts receivable** - Accounts receivable consists primarily of amounts due from third parties who rent harbor facilities.
- (6) **Risk management** - The Harbors Division is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.
- (7) **Harbor facilities and depreciation** - Harbor facilities are stated at cost. Depreciation of harbor facilities is computed using the composite straight-line method over the estimated useful lives of the assets. Depreciation is not provided for in the year of acquisition, but is provided for the entire year in the year of disposal. Disposals of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in operations.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Harbor facilities and their related composite straight-line rates used to compute depreciation are as follows:

	<u>Rates</u>
Land improvements	1.0% - 4.0%
Wharves	1.0 - 10.0
Buildings	1.5 - 20.0
Other improvements	2.0 - 20.0
Equipment	8.0

Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations; major renewals, replacements and betterments are capitalized. Interest cost is capitalized during the period of construction for all capital improvement projects except those projects funded by grants from the State or the federal government.

Depreciation on harbor facilities acquired with contributed capital is reflected as an offset against contributed capital.

- (8) **Bond issue costs** - Costs relating to the issuance of bonds are amortized by the straight-line method over the term of the obligations.
- (9) **Unamortized debt discount** - Debt discount is amortized ratably over the term of the related debt, and the unamortized balance is reflected as an offset against the long-term debt in the balance sheets.
- (10) **Refunding of debt** - The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported as a deduction from or an addition to the new debt liability.
- (11) **Contributions** - Contributions used for construction and/or property acquisitions are stated net of the depreciation on the related property. The Harbors Division received federal funds for construction projects in 2001 and 2000. One of three projects has been completed as of June 30, 2000. Depreciation of \$557,392 in 2001 and \$551,072 in 2000 is included as an expense in the statements of operations but is transferred in the statements of retained earnings to the contributed capital account.

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (12) ***Accrued vacation*** - Employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the balance sheets.

**NOTE C - CASH AND INVESTMENTS**

At June 30, 2001 and 2000, information relating to the insurance and collateral of cash deposits is not available since such information is determined on a statewide basis and not for individual departments or divisions. Cash deposits of the State are either federally insured or collateralized with obligations of the State or the United States. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Statutes authorize the Harbors Division to invest, with certain restrictions, in obligations of the State or the United States, in federally insured savings accounts, time certificates of deposit and repurchase agreements with federally insured banks and savings and loan associations authorized to do business in the State. Money held as reserves may be invested in obligations of the United States, the State or any subdivision of the State. Investments are insured or collateralized with securities held by the State or by its agent in the State's name.

**NOTE D - REVENUE BONDS PAYABLE**

Pursuant to authorization from the State Legislature, the Director of DOT issued the 1990 Certificate and the 1997 Certificate, which provide for the issuance of bonds at any time and from time to time upon compliance with certain conditions of the respective Certificate.

The harbor revenue bonds (Bonds) are collateralized by a charge and lien on the gross revenues of the Public Undertaking and upon all improvements and betterments thereto and all funds and securities created in whole or in part from revenues or from the proceeds of any Bonds issued.

The Bonds are subject to redemption at the option of the Director of DOT and the State during specific years at prices ranging from 102-1/2% to 100% of face value.

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**NOTE D - REVENUE BONDS PAYABLE (Continued)**

The following is a summary of the Bonds as of June 30, 2001:

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Principal Due July 1, 2001	Current	Noncurrent
					Installment Payments Due in Anticipation of Principal Payments on July 1, 2002	
1992	July 1, 2019	5.10 - 6.50%	\$ 19,450,000	\$ 525,000	\$ 550,000	\$ 15,840,000
1992	July 1, 2008	4.75 - 6.20%	13,195,000	990,000	1,045,000	7,655,000
1993	July 1, 2008	4.50 - 6.40%	16,525,000	1,075,000	1,135,000	8,210,000
1994	July 1, 2024	5.50 - 6.25%	54,010,000	1,610,000	2,075,000	50,325,000
1997	July 1, 2027	3.95 - 5.75%	56,290,000	410,000	430,000	54,315,000
2000	July 1, 2029	4.50 - 6.00%	<u>79,405,000</u>	<u>2,090,000</u>	<u>1,840,000</u>	<u>72,255,000</u>
			\$ <u>238,875,000</u>	6,700,000	7,075,000	208,600,000
Less:						
		Unamortized discount		--	261,989	3,359,088
		Unamortized loss on refunding		--	--	3,083,773
				\$ <u>6,700,000</u>	\$ <u>6,813,011</u>	\$ <u>202,157,139</u>

Maturities and sinking fund requirements for the Bonds, including interest of \$168,034,293, in each of the next five years and thereafter are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$ 19,702,681
2003	19,720,066
2004	19,729,206
2005	19,745,267
2006	19,756,984
Thereafter	<u>285,055,089</u>
	\$ <u>383,709,293</u>

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**NOTE E - HARBOR REVENUE BOND REQUIREMENTS**

**1990 CERTIFICATE**

**Minimum net revenue requirement.** Pursuant to Section 6.03 of the 1990 Certificate, the Harbors Division covenants and agrees that so long as any of the Bonds remain outstanding, it will enforce and collect fees, rates, rents and charges for the Public Undertaking that will yield net revenue, as defined by the 1990 Certificate, for the immediately ensuing 12 months, in an amount at least sufficient to:

- (1) Pay when due all Bonds issued under the 1967 Certificate (all Bonds issued under the 1967 Certificate matured on July 1, 1997), interest thereon and reserves therefore;
- (2) The amount computed in accordance with Section 6.03 of the 1990 Certificate:
  - a) Together with funds legally available therefore including any amounts on deposit in the harbor reserve and contingency account; an aggregate sum equal to at least 1.35 times the total amount of: (a) the interest payments for such 12 months on all the Bonds outstanding under the 1990 Certificate, (b) the principal amount of the Bonds maturing by their terms during such 12 months and (c) the minimum sinking fund payments for all Bonds required to be made during such 12 months; and
  - b) Without consideration of other funds, shall be at least equal to 1.00 times the bond service for such 12 months.

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1990 Certificate was \$10,368,843. Net revenues of the Public Undertaking amounted to \$48,828,327 or 4.71 times of the minimum net revenue requirement.

**Harbor revenue special fund.** This fund was created to provide for payments of principal and interest on the Bonds and for extraordinary renewals and replacements. Section 5.01 of the 1990 Certificate requires that the following accounts be established for the purpose of accounting for all monies in the harbor revenue special fund:

- (1) Harbor Interest Account

Equal monthly installments sufficient to pay for the interest next becoming due on the Bonds are required to be paid into this account. This requirement was met as of June 30, 2001.

- (2) Harbor Principal Account

Commencing with the first business day of each fiscal year, equal monthly payments are required to be made to this account sufficient to redeem the Bonds scheduled for redemption on the following July 1. This requirement was met as of June 30, 2001.

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**NOTE E - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

(3) Harbor Debt Service Reserve Account

In order to provide a reserve for the payment of the principal and interest on the Bonds, the Harbors Division is required to deposit in the harbor revenue special fund an amount equal to the lesser of: (a) the average annual bond service on such series and (b) the amount permitted by the Internal Revenue Code of 1986 in order that the interest on such series is excluded from gross income for federal income tax purposes. Furthermore, the Harbors Division is required to satisfy the reserve requirement of maximum aggregate bond service by no later than the first date on which a principal installment is payable (June 30, 2001).

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the reserve requirement allocable to a series of Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Bonds shall not be entitled to payment from or a lien on the funds on deposit in the harbor revenue special fund credited to the harbor debt service reserve account to satisfy that portion of the reserve requirement allocable to other series of Bonds, nor shall the owners of Bonds of such other series be entitled to any payment from such surety bond, insurance policy, or letter of credit. The surety bond, insurance policy, or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be applied from the harbor debt service reserve account to the payment of the principal of or interest on any Bonds of such series and such withdrawals may not be made from amounts credited to the harbor debt service reserve account for such series of Bonds.

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1990 Series bonds), DOT shall receive written confirmation from the rating agency that the rating on the Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor debt service reserve account allocable to a series of Bonds equals that portion of the reserve requirement allocable to such series;

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**NOTE E - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

**(4) Harbor Reserve and Contingency Account**

Monies on credit to the harbor reserve and contingency account may be used to make up any deficiency with respect to any series of Bonds in the harbor interest account, the harbor principal account and the harbor debt service reserve account. To the extent not used to make up any such deficiencies, monies on credit to the harbor reserve and contingency account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Harbors Division.

**1997 CERTIFICATE**

***Minimum net revenue requirement.*** Pursuant to Section 6.03 of the 1997 Certificate, the Harbors Division covenants and agrees that so long as any of the Bonds remain outstanding, it will enforce and collect fees, rates, rents and charges for the Public Undertaking that will yield net revenue, as defined by the 1997 Certificate, for the immediately ensuing 12 months, in an amount at least sufficient to:

- (1) Pay when due all Bonds issued under the 1990 Certificate, interest thereon and reserves therefore;
- (2) The amount computed in accordance with Section 6.03 of the 1997 Certificate:
  - a) Together with funds legally available therefore including any amounts on deposit in the harbor reserve and contingency account; an aggregate sum equal to at least 1.25 times the total amount of: (a) the interest payments for such 12 months on all the Bonds outstanding under the 1997 Certificate, (b) the principal amount of the Bonds maturing by their terms during such 12 months and (c) the minimum sinking fund payments for all Bonds required to be made during such 12 months; and
  - b) Without consideration of other funds, shall be at least equal to 1.00 times the bond service for such 12 months.

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**NOTE E - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate was \$20,221,459. Net revenues of the Public Undertaking amounted to \$48,828,327 or 2.41 times of the minimum net revenue requirement.

***Harbor revenue special fund.*** This fund was created to provide for payments of principal and interest on the Bonds and for extraordinary renewals and replacements. Section 5.01 of the 1997 Certificate requires that the following accounts be established for the purpose of accounting for all monies in the harbor revenue special fund:

(1) Harbor Interest Account

Equal monthly installments sufficient to pay for the interest next becoming due on the Bonds are required to be paid into this account. This requirement was met as of June 30, 2001.

(2) Harbor Principal Account

Commencing with the first business day of each fiscal year, equal monthly payments are required to be made to this account sufficient to redeem the Bonds scheduled for redemption on the following July 1. This requirement was met as of June 30, 2001.

(3) Harbor Debt Service Reserve Account

In order to provide a reserve for the payment of the principal and interest on the Bonds, the Harbors Division is required to deposit in the harbor revenue special fund an amount equal to the lesser of: (a) the average annual bond service on such series and (b) the amount permitted by the Internal Revenue Code of 1986 in order that the interest on such series is excluded from gross income for federal income tax purposes. Furthermore, the Harbors Division is required to satisfy the reserve requirement of maximum aggregate bond service by no later than the first date on which a principal installment is payable (June 30, 2001).

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the reserve requirement allocable to a series of Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Bonds shall not be entitled to payment from or a lien on the funds on deposit in the harbor revenue special fund credited to the harbor debt service reserve account to satisfy that portion

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**NOTE E - HARBOR REVENUE BOND REQUIREMENTS (Continued)**

of the reserve requirement allocable to other series of Bonds, nor shall the owners of Bonds of such other series be entitled to any payment from such surety bond, insurance policy, or letter of credit. The surety bond, insurance policy, or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be applied from the harbor debt service reserve account to the payment of the principal of or interest on any Bonds of such series and such withdrawals may not be made from amounts credited to the harbor debt service reserve account for such series of Bonds.

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1997 Series bonds), DOT shall receive written confirmation from the rating agency that the rating on the Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor debt service reserve account allocable to a series of Bonds equals that portion of the reserve requirement allocable to such series; provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

**(4) Harbor Reserve and Contingency Account**

Monies on credit to the harbor reserve and contingency account may be used to make up any deficiency with respect to any series of Bonds in the harbor interest account, the harbor principal account and the harbor debt service reserve account. To the extent not used to make up any such deficiencies, monies on credit to the harbor reserve and contingency account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Harbors Division.

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**NOTE F - SPECIAL FACILITY LEASE AND REVENUE BONDS**

The State Legislature, in its 1980 session, authorized the issuance of special facility revenue bonds for the construction, acquisition, remodeling, furnishing and equipping of state-owned special facilities for lease to parties engaged in maritime operations.

Pursuant to this authorization, \$15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of \$16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1993, special facility revenue bonds of \$16,500,000 were issued to refund the outstanding 1983 Series bonds.

These bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003 at prices ranging from 102 to 100% of face value. Matson Navigation Company, Inc., parent company of the lessee, has provided a guaranty agreement as to payment of principal and interest on the bonds.

The special facility lease with Matson Terminals, Inc. is accounted for as a direct financing lease. The following lists the components of the net investment in direct financing lease as of June 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Total minimum lease payments receivable	\$ 27,568,750	\$ 28,517,500
Estimated unguaranteed residual value	3,600,000	3,600,000
Less unearned income	<u>12,656,158</u>	<u>13,731,391</u>
Net investment in direct financing lease	\$ <u>18,512,592</u>	\$ <u>18,386,109</u>

Minimum future rentals to be received as of June 30, 2001 under the direct financing lease are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$ 948,750
2003	948,750
2004	948,750
2005	948,750
2006	948,750
Thereafter	<u>22,825,000</u>
	\$ <u>27,568,750</u>

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**NOTE G - GENERAL OBLIGATION BONDS PAYABLE**

The Harbors Division is required to reimburse the State General Fund for principal and interest on the following state general obligation bonds authorized and issued to finance certain capital improvement projects of the Public Undertaking:

Year of Issue	Last Installment Due Date	Interest Rates	Original Amount of Issue	Current		Noncurrent
				Principal Due July 1, 2001	Installment Payments Due in Anticipation of Principal Payments on July 1, 2002	
1991	November 1, 2003	5.30 - 7.25%	\$ 382,801	\$ --	\$ 21,264	\$ --
1992	March 1, 2012	5.15 - 6.40%	12,870	--	715	7,149
1993	July 1, 2002	3.25 - 4.60%	3,412,058	379,094	379,094	--
1993	February 1, 2003	3.85 - 5.00%	468,363	--	58,539	58,539
1993	November 1, 2010	4.00 - 5.00%	160,901	--	10,728	96,533
1998	April 1, 2009	5.00 - 5.25%	64,631	--	--	64,631
				<u>\$ 4,501,624</u>	<u>\$ 379,094</u>	<u>\$ 226,852</u>

Maturities of general obligation bonds, including interest of \$62,427, in each of the next five years and thereafter are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$ 500,072
2003	86,160
2004	25,586
2005	25,252
2006	24,920
Thereafter	<u>97,629</u>
	<u>\$ 759,619</u>

**NOTE H - INTEREST COST**

Total interest cost incurred for the fiscal years ended June 30, 2001 and 2000 amounted to \$14,517,402 and \$14,719,471, respectively. Of this amount, \$1,889,228 and \$1,665,045 were capitalized in the respective fiscal years as part of the construction cost of harbor facilities.

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**NOTE I - LEASING OPERATIONS**

The Harbors Division's leasing operations consist principally of the leasing of land, wharf and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through 2058. These leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2001:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$ 8,284,361
2003	8,330,962
2004	8,361,919
2005	8,320,056
2006	8,201,135
Thereafter	<u>236,662,178</u>
	<u>\$ 278,160,611</u>

The above schedule includes estimated future rental revenue for certain leases beyond their first 15 years. The estimated future rental revenue for certain leases beyond their first 15 years is based on the most current appraised rental rates based upon the prevailing fair value.

The Harbors Division estimates that approximately 10% of the land area (excluding submerged lands) and floor space of the harbor facilities is leased or held for lease. Information regarding the cost and related accumulated depreciation of these facilities, which is required by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, to be disclosed, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum lease rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

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**NOTE J - REFUND OF WHARFAGE FEES**

The Harbors Division assesses wharfage fees at various rates for the different types of cargo shipped in and out of DOT's commercial harbors system. A major user of DOT's commercial harbors system requested from the Harbors Division a refund of net wharfage fees overpaid from 1994 to 1998 arising from reporting errors of cargo shipped. In July 2001, the Harbors Division agreed on the amount of overpaid wharfage fee to be refunded. The refund will be applied towards future wharfage fees assessed by the Harbors' Division. This refund was recorded as a charge in the accompanying statements of operations.

**NOTE K - RETIREMENT BENEFITS**

***Employees' retirement system.*** All eligible employees of the Harbors Division are required by the Hawaii Revised Statutes (HRS) Chapter 88, to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii, 96813.

Members of the ERS belong to either a contributory or noncontributory option. Only employees of the Harbors Division hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by state statute to contribute 7.8% of their salary to the contributory option and the Harbors Division is required to contribute to both options at an actuarially determined rate. Contributions by the Harbors Division for the fiscal years ended June 30, 2001, 2000, and 1999, were approximately \$155,000, \$450,000 and \$414,000, respectively. The contribution rate was 5.78% from July 1, 2000 to November 15, 2000, and nil for the remainder of the fiscal year ended June 30, 2001. The contribution rate for the fiscal years ended June 30, 2000 and 1999 was 5.83%.

***Post-retirement health care and life insurance benefits.*** In addition to providing pension benefits, the State provides certain health care and life insurance benefits to retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The Harbors Division's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2001 and 2000, was approximately \$412,000 and \$470,000, respectively.

**NOTE L - COMMITMENTS**

***Construction contracts.*** The Harbors Division is committed under contracts awarded and orders placed for construction, expenses, supplies, etc. These commitments amounted to approximately \$39,148,000 at June 30, 2001.

**State of Hawaii**  
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**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE L - COMMITMENTS (Continued)**

***Accumulated sick leave pay.*** Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a public employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2001, approximated \$4,647,000.

***Deferred compensation plan.*** The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which was issued October 1997, requires deferred compensation plans to be reported as an expendable trust if they meet the fiduciary fund criteria defined in National Council on Governmental Accounting Statement 1. The State's deferred compensation plan does not meet those criteria. Accordingly, the assets and liabilities of the deferred compensation plan are not reported in the State's or the Harbor Division's financial statements.

**NOTE M - RISK MANAGEMENT**

The Harbors Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$250,000 per occurrence of property losses and the first \$2 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$300 million (\$50 million for earthquake and flood) and the annual aggregate for general liability losses per occurrence is \$50 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$40 million per occurrence with no annual aggregate limit. The State is generally self-insured for workers' compensation and automobile claims. The State's estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

**State of Hawaii**  
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**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE N - CEDED LANDS**

**OHA et al., v. State of Hawaii, Civil No. 94-0205-01 (First Circuit Court)**

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands which the United States acquired by exchanges for ceded lands after 1898 was conveyed by the United States to the State. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain portions of the lands within DOT's commercial harbors system are situated on parcels of land which are to be held by the State as a public trust under Section 5.

In 1978, the State Constitution was amended to expressly specify that the lands conveyed to the State as a public trust by the Admission Act were to be held by the State as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from the pro rata portion of the lands held by the State for the betterment of native Hawaiians.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of the public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii (SLH) 1990, as well as interest thereon. The State has denied all of OHA's substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

In May 1996, OHA filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies from four specific sources, including interest income (investment income) from DOT's investment of income and proceeds from lands within DOT's commercial harbors system situated on ceded lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment. On September 3, 1998, the State filed an interlocutory appeal to the Hawaii Supreme Court, and on October 7, 1998, that motion was denied. All other proceedings, including the trial previously scheduled to begin on November 18, 1996, have been stayed pending the Hawaii Supreme Court's disposition of the appeal.

**State of Hawaii**  
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**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE N - CEDED LANDS (Continued)**

On July 28, 1998, the Hawaii Supreme Court granted a motion to stay all proceedings until December 1, 1998 in the State's pending appeal before the Hawaii Supreme Court to allow OHA and the State to begin direct discussions to resolve OHA's claims in that case.

On September 12, 2001, the Hawaii Supreme Court concluded that Act 304 was effectively repealed by its own terms and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenues it sought from the ceded lands because the repeal of Act 304 revived the law which the Hawaii Supreme Court had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. Based on this, the Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. It is unlikely that OHA will abandon these claims.

On June 30, 1997, the Governor approved Act 329, SLH 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to the public trust, and of the proceeds and income which the lands generate. The Act establishes a task force which is allowed until January 1999 to identify and consider all issues and controversies relating to the public trust and to prepare recommendations for the State Legislature to implement through legislation. It also fixes the amount of proceeds and income OHA will receive during the two-year period at \$15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

The State's potential liability, if any, therefore, may be determined by legislation enacted as a result of the process set out in Act 329. Given all of the above, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution adverse to the State could have a material adverse effect on the State's financial condition.

A legislative resolution adverse to the State could have a material adverse effect on the Harbors Division's financial condition if an adverse resolution against the State includes liability based on activities related to, or income derived from DOT's commercial harbors system situated on ceded lands, and the liability is imposed on the Harbors Division. Accordingly, no estimate of loss has been recorded in the accompanying financial statements of the Harbors Division.

Amounts paid and payable to OHA are treated as operating expenses of DOT's commercial harbors system. During the fiscal years ended June 30, 2001 and 2000, as a result of Act 329, payment to OHA was made by the State on behalf of various state departments, including the Harbors Division. The State's payment for the Harbors Division of \$5,459,314 and \$5,519,378, for the fiscal years ended June 30, 2001 and 2000, respectively, are included as an operating expense in the statements of operations. In the future, tariffs may need to be increased to assure that they are sufficient to satisfy debt service coverage, OHA payment requirements, other operating expenses, and capital improvement projects.

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE O - TRANSACTIONS WITH OTHER GOVERNMENT AGENCIES**

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to \$2,388,447 and \$1,872,407 for the fiscal years ended June 30, 2001 and 2000, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to \$977,736 and \$1,067,320 for the fiscal years ended June 30, 2001 and 2000, respectively.

The Harbors Division incurred costs of \$1,086,376 and \$1,257,979 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2001 and 2000, respectively.

The Small Boat Harbors Boating Program (Program) was transferred from DOT to the Department of Land and Natural Resources (DLNR) in 1992. Services performed by the Harbors Division for the Program are fully reimbursed by the Program. Services rendered during the fiscal years ended June 30, 2001 and 2000 amounted to \$94,913 and \$107,439, respectively.

**NOTE P - ALOHA TOWER COMPLEX DEVELOPMENT**

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, the Harbors Division entered into a lease with ATDC transferring to ATDC portions of the Aloha Tower complex. ATDC is required annually to reimburse the Harbors Division for any losses in revenues during the term of the lease caused by any action of ATDC or the developer and to provide replacement facilities for maritime activities at no cost to the Harbors Division.

In September 1993, ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer. The developer and the Harbors Division entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement). The Harbors Division continues to operate the harbor facilities at Piers 8, 9, and 10. The lease between ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse the Harbors Division for all losses in revenues and increased expenses which may be incurred by the Harbors Division. ATDC and the developer have agreed to offset reimbursements due to the Harbors Division for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by the Harbors Division. The developer is entitled to offset the cost of repairs, not to exceed \$1.1 million, against its obligation to reimburse the Harbors Division for losses in revenues.

**State of Hawaii**  
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**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE P - ALOHA TOWER COMPLEX DEVELOPMENT (Continued)**

The first phase of the Aloha Tower complex development has been completed.

The losses in revenues for fiscal years ended June 30, 2001 and 2000, amounted to \$1,677,877 and \$1,657,289, respectively, and have been included in rental revenues in the respective fiscal year. As of June 30, 2001 and 2000, amounts due to the Harbors Division were \$2,864,632 and \$2,015,665, respectively.

**NOTE Q - TRANSFER OF LAND TO OTHER STATE AGENCIES**

In the 1990 session of the State Legislature, Act 86 was enacted, which transferred certain lands at Kewalo Basin and Fort Armstrong under the jurisdiction of the Harbors Division to the Hawaii Community Development Authority (HCDA), a state agency which oversees the development of the Kakaako Community Development District (District). Approximately 73 acres of the Harbors Division's land was transferred to HCDA under Act 86. Act 86 provides for HCDA to ensure due and adequate satisfaction of provisions for any covenant between the State or any county or any department or board thereof and the holders of bonds issued by the State or such county, department or board, if any.

As part of HCDA's development of the District, two structures from which the Harbors Division received revenue were demolished and the land improved. The Harbors Division expects to enter into negotiations with HCDA regarding the revenues lost due to the demolition of those structures, and potential revenue losses as the development of the District progresses. Besides revenue losses, the Harbors Division expects to enter negotiations regarding leases, security, maintenance and repair of facilities, and capital improvement projects. The Harbors Division continues to operate the harbor facilities at Kewalo Basin and Fort Armstrong pending completion of the negotiations. Additionally, the Harbors Division expects to continue operating Kewalo Basin based on its discussions with HCDA.

**NOTE R - KAPALAMA LAND DEVELOPMENT**

In 1993, the State issued a request for proposals (RFP) to have a private developer develop a portion of the former Kapalama Military Reservation. Negotiations were conducted with a developer, but were terminated and the State plans to issue another RFP. The future development of the area is under study, and therefore, the effect on the Harbors Division is uncertain.

**State of Hawaii**  
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**Harbors Division**  
**NOTES TO FINANCIAL STATEMENTS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001 and 2000**

**NOTE S - ARBITRAGE**

The Harbors Division is required to annually calculate rebates due to the U.S. Treasury on the harbor revenue bonds issued from 1986. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2001, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

**NOTE T - CONTINGENCIES**

The Harbors Division is subject to laws and regulations relating to the protection of the environment. Migration of contamination from the Nimitz Highway area to the Harbors Division's property in the Honolulu area from Piers 19 to 38 was discovered during the fiscal year ended June 30, 1996. The Department of Health conducted several studies of the contaminated area from 1997 to 1999. Results of the studies were inconclusive. The Harbors Division has not been identified as a potentially responsible party. However, the Harbors Division entered into an agreement with the Department of Health and other third parties to share in the responsibility for remediation of the contaminated property with all parties to the agreement. The Harbors Division is unable to estimate the potential cost of remediation. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**

State of Hawaii  
Department of Transportation  
Harbors Division

Schedule 1

**CASH AND CASH EQUIVALENTS AND INVESTMENTS IN TIME CERTIFICATES  
OF DEPOSIT AND REPURCHASE AGREEMENTS OF THE PUBLIC UNDERTAKING  
June 30, 2001**

Unrestricted cash and cash equivalents	\$ <u>72,592,326</u>
--	----------------------

Restricted cash and cash equivalents and investments in time certificates of  
deposit and repurchase agreements:

For construction, including time certificates of deposit and repurchase agreements of \$20,210,500	48,198,595
For matured revenue bonds and interest coupons payable	529,600
For general obligation bond debt service payments	699,375
For revenue bond debt service payments	13,447,365
For insurance deductibles	897,765
For security deposits	2,252,414
For payment to the Department of Budget and Finance	<u>9,999,893</u>
	<u>76,025,007</u>

Total	\$ <u>148,617,333</u>
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With Director of Finance, State of Hawaii	\$ 127,834,317
Time certificates of deposit and repurchase agreements	20,210,500
With fiscal agents	529,600
On hand	<u>42,916</u>

Total	\$ <u>148,617,333</u>
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State of Hawaii  
Department of Transportation  
Harbors Division

**HARBOR FACILITIES AND RELATED ACCUMULATED DEPRECIATION OF THE PUBLIC UNDERTAKING**  
Fiscal Year Ended June 30, 2001

	Harbor Facilities				Accumulated Depreciation			Cost, less Accumulated Depreciation
	Balance, June 30, 2000	Additions*	Deductions	Balance, June 30, 2001	Balance, June 30, 2000	Additions	Deductions	
Land and land improvements	\$ 323,428,539	\$ 1,448,643	\$ --	\$ 324,877,182	\$ 15,752,922	\$ 2,096,172	\$ --	\$ 307,028,088
Wharves	171,940,543	5,896,478	(35,381)	177,801,640	54,027,321	4,692,539	(35,381)	119,117,161
Other improvements	73,594,405	42,937	--	73,637,342	16,040,620	2,398,689	--	55,198,033
Buildings	40,815,787	1,086,148	--	41,901,935	16,185,404	1,332,910	--	24,383,621
Equipment	11,117,435	391,163	(522,994)	10,985,604	6,521,360	774,391	(399,239)	4,089,092
Construction in progress (Schedule 3)	24,790,438	36,347,948	(8,474,206)	52,664,180	--	--	--	52,664,180
	\$ 645,687,147	\$ 45,213,317	\$ (9,032,581)	\$ 681,867,883	\$ 108,527,627	\$ 11,294,701	\$ (434,620)	\$ 562,480,175

\*Includes transfers from construction in progress of \$8,474,206

State of Hawaii  
Department of Transportation  
Harbors Division  
**CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING**  
Fiscal Year Ended June 30, 2001

Project	Balance, June 30, 2000	Additions by Source of Funds				Capitalized Interest	Transfer Out	Balance, June 30, 2001
		Harbor Special Fund	Harbor Revenue Bonds	General Fund				
Statewide:								
Statewide passenger terminal facility	\$ 496,432	--	\$ --	\$ --	\$ 25,418	--	\$ --	\$ 521,850
Statewide surveying	12,477	118,219	--	--	2,986	--	--	133,682
Honolulu Harbor:								
Lead paint and asbestos study	170,362	1,577	--	--	8,161	--	--	180,100
Sand Island tunnel feasibility study	957,110	--	--	--	9,801	--	--	966,911
Piers 24-29 shed demolition and site improvement	933,680	69,631	461,112	--	60,578	--	--	1,525,001
Fuel pier construction and utility	22,379	--	--	--	1,065	--	--	23,444
Pier 32 tank farm, pipeline removal	566,949	13,543	170,661	--	33,298	--	--	784,451
Sand Island container yard reconstruction	955,453	239,103	--	--	55,017	--	--	1,249,573
Harbor planning	209,310	--	--	--	10,717	--	--	220,027
Domestic commercial fishing village	7,928,536	7,355,397	--	--	593,765	--	--	15,877,698
Utilities for CSX Lines service	426,808	144,988	--	--	25,561	597,357	--	--
Petroleum, oil and lubricant remediation study	372,488	21,657	--	--	18,493	--	--	412,638
Demolition of storage tanks	84,498	3,316	450	--	4,410	--	--	92,674
Pier 39 fender system	184,538	189,301	--	--	--	373,839	--	--
Pier 19 ferry and cruise passenger terminal	7,840	351,115	--	--	9,208	--	--	368,163
Pier 2 cruise ship terminal	136,164	48,611	--	--	8,216	--	--	192,991
Pier 11 shed roof repairs	157,981	100,351	--	--	--	258,332	--	--
Keahi Industrial Park development plan	19,554	166,000	--	--	5,251	--	--	190,805
Piers 19-29 development plan	102,915	104,837	--	--	7,953	--	--	215,705
Sand Island container yard light pole repairs	--	155,526	--	--	--	--	--	155,526
Piers 16-17 electrical panel replacement	--	42,937	--	--	--	42,937	--	--
Pier 39 sprinkler and landscaping installation	--	1,558	--	--	40	--	--	1,598
Replace air conditioning at Oahu District Office	--	379	--	--	--	--	--	379
Pier 51 water line replacement	--	117,339	--	--	3	--	--	117,342
Maintenance of elevators and escalators	--	112,750	--	--	2,887	--	--	115,637
Piers 8-11 bullrail installation	--	87,384	--	--	--	--	--	87,384
Piers 1-2 fender system repairs	--	133,017	--	--	--	--	--	133,017
Aloha Tower generator replacement	--	747	--	--	--	--	--	747
Aloha Tower lighting improvements	--	205	--	--	--	--	--	205
Navigation improvements	360,203	175,000	--	--	22,922	--	--	558,125
Sand Island container yard annex	--	616,467	--	--	15,743	--	--	632,210
Sand Island stevedore driveway access and parking	--	5,650	--	--	145	--	--	5,795
Bullrail installation	--	72	--	--	2	--	--	74

State of Hawaii  
Department of Transportation  
Harbors Division  
**CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING**  
Fiscal Year Ended June 30, 2001

Project	Balance, June 30, 2000	Additions by Source of Funds				Transfer Out	Balance, June 30, 2001
		Harbor Special Fund	Harbor Revenue Bonds	General Fund	Capitalized Interest		
Kewalo Basin:							
Catwalk replacement	615,735	1,967,106	--	--	81,694	--	2,664,535
Electrical repairs	--	329	--	--	--	--	329
Demolition of former GRG Enterprise	--	7,579	--	--	194	--	7,773
Barbers Point Harbor:							
Internal access roadway	72,912	353,467	--	--	10,652	437,031	--
Deep Draft Harbor improvements	1,688,299	559,139	6,978,077	--	281,656	--	9,507,171
Pier 5 extension and utility improvement	1,955,949	4,584,321	--	--	215,431	--	6,755,701
Basin expansion	--	1,000	69	--	27	1,096	--
Kahului Harbor:							
Kaumalapau Harbor survey	886	--	--	--	45	--	931
Pier 1A cruise terminal development plan	13,440	1,128,518	--	--	29,579	--	1,171,537
Cargo yard expansion	273,302	--	--	--	12,115	--	285,417
Drainage master plan	97,687	--	--	--	4,441	--	102,128
Pier 2 fender system	28,811	93,784	--	--	1,491	124,086	--
Pier 1 substructure improvements	21,591	352,975	--	--	8,451	383,017	--
Barge terminal improvements	3,711,360	1,200,320	--	--	109,666	5,021,346	--
Pier 1 improvements	577,653	67,541	1,205,984	--	62,157	--	1,913,335
Pier 3 container yard reconstruction	8,259	174,475	--	--	4,889	--	187,623
Piers 2 and 3 yard pavement	--	112	--	--	2	--	114
Wharf Street shed renovation	--	2,659	--	--	68	--	2,727
Navigation study	--	50,000	--	--	1,280	--	51,280
Puunene yard pavement	--	343	--	--	--	--	343
Kaunakakai Harbor:							
Bullrail installation	--	44	--	--	1	--	45

Schedule 3  
(Continued)

State of Hawaii  
Department of Transportation  
Harbors Division  
CONSTRUCTION IN PROGRESS OF THE PUBLIC UNDERTAKING  
Fiscal Year Ended June 30, 2001

Project	Balance, June 30, 2000	Additions by Source of Funds					Capitalized Interest	Transfer Out	Balance, June 30, 2001
		Harbor Special Fund	Harbor Revenue Bonds	General Fund					
Hilo Harbor:									
Hilo Harbor improvements	\$ 151,637	\$ 92,445	\$ --	\$ --	\$ 10,127	\$ --	--	\$ 254,209	
Pave former molasses tanks area near Pier 3	105,392	310,820	--	--	13,351	--	--	429,563	
Environmental impact study	--	262,749	--	--	6,726	--	--	269,475	
District Office roof replacement	--	107,660	--	--	23	--	107,683	--	
Pier 1 fender system repair	--	145,713	--	--	--	--	--	145,713	
Port timber fender system replacement	--	16,596	--	--	425	--	--	17,021	
Piers 1-2 roll up door repair	--	551	--	--	--	--	--	551	
Pier 3 breasting dolphins and catwalks	--	290	--	--	7	--	--	297	
Bullrail installation	--	44	--	--	1	--	--	45	
Kawaihae Harbor:									
Pave barge terminal area	311,959	3,488,766	--	--	105,279	--	--	3,906,004	
Nawiliwili Harbor:									
Pier 3 improvements	33,331	--	--	--	1,700	--	--	35,031	
Realignment of Waapa Road	896,194	(13,667)	2,093	--	1,646	--	886,266	--	
Miscellaneous improvements	19,765	95,225	--	--	3,449	--	118,439	--	
Pier 2 shed siding repairs	100,599	22,178	--	--	--	--	122,777	--	
Environmental risk assessment	--	31,335	--	--	802	--	--	32,137	
Pier 2 extension	--	8,939	--	--	212	--	--	9,151	
Bullrail installation	--	44	--	--	1	--	--	45	
Port Allen									
Repair fire sprinkler system	--	150,197	--	--	--	--	--	150,197	
Total	\$ 24,790,438	\$ 25,640,274	\$ 8,818,446	\$ --	\$ 1,889,228	\$ 8,474,206	\$ 52,664,180		

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**GENERAL OBLIGATION BONDS OF THE PUBLIC UNDERTAKING**  
**June 30, 2001**

State of Hawaii General Obligation Bonds	Date of Bond	Last Installment Due Date	Interest Rates	Original Amount of Issue	Amount Repaid	Balance, June 30, 2001	
						Current	Noncurrent
Series BU	November 1, 1991	November 1, 2003	5.30 - 7.25%	\$ 382,801	\$ 361,537	\$ 21,264	\$ --
Series BW	March 1, 1992	March 1, 2012	5.15 - 6.40%	12,870	5,006	715	7,149
Series CD	February 1, 1993	February 1, 2003	3.85 - 5.00%	468,363	351,285	58,539	58,539
Series CF	July 1, 1993	July 1, 2002	3.25 - 4.60%	3,412,058	2,653,870	758,188	--
Series CI	November 1, 1993	November 1, 2010	4.00 - 5.00%	160,901	53,640	10,728	96,533
Series CS	April 1, 1998	April 1, 2009	5.00 - 5.25%	64,631	--	--	64,631
				<u>\$ 4,501,624</u>	<u>\$ 3,425,338</u>	<u>\$ 849,434</u>	<u>\$ 226,852</u>
							<u>\$ 1,076,286</u>

State of Hawaii  
Department of Transportation  
Harbors Division  
**REVENUE BONDS OF THE PUBLIC UNDERTAKING**  
June 30, 2001

	Final Redemption Date	Interest Rates	Original Amount of Issue	Balance, June 30, 2001		
				Current	Noncurrent	Total
Issue of 1992	July 1, 2019	5.10-6.50%	\$ 19,450,000	\$ 1,075,000	\$ 15,840,000	\$ 16,915,000
Refunding issue of 1992	July 1, 2008	4.75-6.20%	13,195,000	2,035,000	7,655,000	9,690,000
Refunding issue of 1993	July 1, 2008	4.50-6.40%	16,525,000	2,210,000	8,210,000	10,420,000
Issue of 1994	July 1, 2024	5.50-6.25%	54,010,000	3,685,000	50,325,000	54,010,000
Issue of 1997	July 1, 2027	3.95-5.75%	56,290,000	840,000	54,315,000	55,155,000
Issue of 2000	July 1, 2029	4.50-6.00%	<u>79,405,000</u>	<u>3,930,000</u>	<u>72,255,000</u>	<u>76,185,000</u>
			\$ <u>238,875,000</u>	\$ <u>13,775,000</u>	\$ <u>208,600,000</u>	\$ <u>222,375,000</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**OPERATING REVENUES BY DISTRICT OF THE PUBLIC UNDERTAKING**  
**Fiscal Year Ended June 30, 2001**

**Schedule 6**

	Oahu	Hawaii	Maui	Kauai	Total
Services:					
Wharfage	\$ 25,562,849	\$ 3,323,803	\$ 3,697,169	\$ 1,454,360	\$ 34,038,181
Dockage	3,459,280	233,069	270,654	167,956	4,130,959
Demurrage	1,112,325	319,644	299,062	50,327	1,781,358
Port entry	766,879	106,420	93,507	59,440	1,026,246
Mooring charges	975,009	20,659	338	65,057	1,061,063
Cleaning wharves	69,302	1,260	139	7,841	78,542
Other	4,024	55	7,308	4,437	15,824
Total services	31,949,668	4,004,910	4,368,177	1,809,418	42,132,173
Rentals:					
Wharf space and land	16,379,965	252,613	232,492	496,290	17,361,360
Storage	1,973,869	101,667	295,864	234,730	2,606,130
Auto parking	1,036,853	30,171	77,450	60,552	1,205,026
Pipelines:					
Oil	930,642	309,049	367,225	121,644	1,728,560
Water	121,853	38,953	33,550	32,958	227,314
Molasses	13,449	--	19,170	2,749	35,368
Bulk materials	23,206	18,586	16,142	43,891	101,825
Ammonia	4,192	--	2,234	570	6,996
Other	7,073	--	--	--	7,073
Total rentals	20,491,102	751,039	1,044,127	993,384	23,279,652
Others:					
Sale of utilities	458,582	36,821	89,983	36,802	622,188
Permits to vendors	344,005	50,133	5,375	184,723	584,236
Miscellaneous	81,405	20,464	5,831	11,783	119,483
Total others	883,992	107,418	101,189	233,308	1,325,907
	\$ 53,324,762	\$ 4,863,367	\$ 5,513,493	\$ 3,036,110	\$ 66,737,732

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**SELECTED OPERATING EXPENSES BY DISTRICT OF THE PUBLIC UNDERTAKING**  
**Fiscal Year Ended June 30, 2001**

**Schedule 7**

	District				Administration	Total
	Oahu	Hawaii	Maui	Kauai		
Personal services	\$ 4,138,870	\$ 462,900	\$ 573,499	\$ 536,458	\$ 2,398,755	\$ 8,110,482
Harbor operations	1,544,232	144,277	196,305	204,940	5,487,856	7,577,610
Maintenance	2,758,815	189,837	573,928	367,667	138,790	4,029,037
General administration	<u>3,348,988</u>	<u>26,088</u>	<u>20,042</u>	<u>25,688</u>	<u>1,322,503</u>	<u>4,743,309</u>
	<u>\$ 11,790,905</u>	<u>\$ 823,102</u>	<u>\$ 1,363,774</u>	<u>\$ 1,134,753</u>	<u>\$ 9,347,904</u>	<u>\$ 24,460,438</u>

**State of Hawaii**  
**Department of Transportation**  
**Harbors Division**  
**HARBOR REVENUE BONDS 1990 CERTIFICATE - MINIMUM NET**  
**REVENUE REQUIREMENT OF THE PUBLIC UNDERTAKING**  
**Fiscal Year Ended June 30, 2001**

**Schedule 8**

Net revenues, as defined by the 1990 Certificate:

Income from operations before depreciation \$ 37,824,735

Add:

Interest income, exclusive of investment in direct  
financing lease

\$ 8,615,145

State of Hawaii, surcharge for central service expenses

2,388,447

Cash available in the harbor reserve and contingency  
account

                    --                    11,003,592

\$ 48,828,327

Harbor revenue bond debt service requirements under the 1990  
Certificate, including minimum sinking fund payments during  
the current fiscal year

\$ 10,368,843

Ratio of net revenues to harbor revenue bond debt service  
requirements

4.71

State of Hawaii  
Department of Transportation  
Harbors Division  
**HARBOR REVENUE BONDS 1997 CERTIFICATE - MINIMUM NET  
REVENUE REQUIREMENT OF THE PUBLIC UNDERTAKING**  
Fiscal Year Ended June 30, 2001

Schedule 9

Net revenues, as defined by the 1997 Certificate:

Income from operations before depreciation \$ 37,824,735

Add:

Interest income, exclusive of investment in direct  
financing lease

\$ 8,615,145

State of Hawaii, surcharge for central service expenses

2,388,447

Cash available in the harbor reserve and contingency  
account

          --          

11,003,592

\$ 48,828,327

Harbor revenue bond debt service requirements under the  
1997 Certificate, including minimum sinking fund payments  
during the current fiscal year

\$ 20,221,459

Ratio of net revenues to harbor revenue bond debt service  
requirements

2.41

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## **APPENDIX B**

### **INFORMATION CONCERNING THE STATE OF HAWAII**

*The statistical information presented by this Appendix B is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.*

#### **INTRODUCTION**

##### **General**

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands in the order of size are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population shows greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. The 2000 U.S. Census indicated that about 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of other races, such as African Americans and American Indians.

##### **State Government**

The Constitution of the State provides for three separate branches of government: the legislative, the executive and the judicial. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his inability to exercise and discharge the powers and duties of his office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor with the advice and consent of the Senate and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

##### **The Counties and Their Relationship to the State**

There are four counties in the State, being the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai, and one quasi-county, Kalawao. Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. *There are no independent or separate cities or other municipalities, school districts or townships.* The State government of Hawaii has total responsibility for many functions which in most other parts of

the United States are performed by or shared by local governments. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

## GENERAL ECONOMIC INFORMATION

### General

Certain of the following material pertaining to economic factors in the State under the captions "**State of the Economy**" through and including "**Table 10**" has been excerpted from the December 2001 Quarterly Statistical and Economic Report ("QSER") prepared by the State of Hawaii Department of Business, Economic Development and Tourism ("DBEDT") and may be found at <http://www.hawaii.gov/dbedt/qsr1201/index.html>. Unless otherwise stated, the following information is historical; estimated figures are used only when the definitive figures are unavailable. The text refers to certain enumerated tables found under "**GENERAL ECONOMIC INFORMATION.**" Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "**APPENDIX B-FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.**"

DBEDT's current forecast for real Gross State Product ("GSP") (the value of all goods and services produced and consumed within the State adjusted for inflation) growth in 2002 is 1.2%. In real terms (adjusting for inflation), DBEDT estimates that 2002 GSP growth over 2001 will be 0.6%.

### State of the Economy

The third quarter of 2001 began with Hawaii's economy growing more slowly in response to recession conditions on the U.S. mainland and in Japan. The third quarter ended with the sharp drop in visitor arrivals and increasing unemployment as a result of the events of September 11, 2001. However, continued consumer spending, federal government spending, and construction activity moderated the negative conditions.

In the third quarter of 2001, Hawaii's civilian employment exhibited a moderate increase over the previous quarter and over the third quarter of 2000. It was the tenth straight quarter that civilian employment increased. The number of civilians unemployed rose significantly, but the unemployment rate held relatively steady. Civilian employment continued to grow in October and November 2001 but at much slower rates. Unemployment rates increased above 5 percent in October and November for the first time in several years. (Table 3)

Non-agricultural wage and salary jobs increased by 0.7% measured year-to-year for the third quarter. The retail trade sector and the services sector produced much of the job growth in the private sector with increases of 1,700 and 800 jobs respectively over the third quarter of 2000. (Table 1) With the significant impact on the visitor industry, jobs fell in October and November 2001.

Personal income rose 4.1% in the second quarter of 2001, the period for which the most recent data are available, compared to the second quarter of 2000. Wage and salary growth was particularly strong. Wages and salaries rose by over \$900 million, or 4.8% in the second quarter of 2001. Other labor income rose by 4.9% and proprietors' income grew by 3.3% in the second quarter of 2001 compared to the second quarter of 2000. (Table 4)

State general fund tax revenue grew 1.9% from the third quarter of 2000 to the third quarter of 2001, measured from the record annual collections of over \$3 billion in 2000. GET revenue expanded 1.5% and net individual income tax revenue grew 1.2%. The Transient Accommodations Tax (TAT) revenue grew by 7.0% in the third quarter (Table 1). Tax revenue growth remained positive in for the period October through December, despite the effects of September 11 largely due to technical factors.

The number of visitors arriving by air decreased 9.7% in the third quarter of 2000 from the third quarter of 2001. This was the largest quarterly decline in total visitor arrivals since the first quarter of 1991. Average daily

census was down 6.7% and hotel occupancy rates also dropped, decreasing from 78.0% in the third quarter of 2000 to 70.6% in the third quarter of 2001. (Tables 7&8) Visitor arrival growth remained down by about 30 percent in October and November as compared to the same period last year, but improved somewhat in December (down 16 percent).

Overall, the construction industry activity in the third quarter decreased slightly from last year's third quarter level. As of the third quarter of 2001, the contracting tax base (a measure of construction put in place) increased 3.4%, while government contracts awarded are down 35.1%. (Table 9) Construction jobs declined 3.1% from the third quarter of 2000 to the third quarter of 2001 (Table 1).

Hawaii bankruptcy filings increased by almost 200, or 19.7% in the third quarter 2001 compared to the third quarter of 2000. The increase is similar to the increase in filings for the nation as a whole. U.S. bankruptcy filings increased 16%.

### **Outlook of the Economy**

Prior to September 2001, DBEDT was expecting a strong second half to produce a modest gain in overall visitor arrivals for 2001. While the U.S. and International economic environment deteriorated during the first half of the year, continued strength in local economic activity resulted in only modest slowing in Hawaii's economic indicators. By late summer, Hawaii's economy was showing some renewed strength.

As of December, however, economic forecasts for the State were uncertain. At best, forecasts assume that military and domestic security issues will continue to be addressed effectively and will not retard the economic recovery. Even then, there is uncertainty about how fast consumers and businesses will return to pre-September spending plans and consumption patterns, including air travel.

Hawaii's recovery is closely tied to its visitor markets and the U. S. and international economic performance. The concerns about travel have increased the seriousness of the otherwise shallow recession that stalled the national economy since the spring of 2001. U.S. Real Gross Domestic Product (GDP) declined at a sharp 1.1% annual rate in the third quarter of 2001. The fourth quarter is also expected to show a decline in real GDP. However, the Blue Chip Economic Forecast, which is based on an average of 50 major U.S. forecasts, anticipates 1.1% growth in GDP in 2002.

Japan, on the other hand, appears to be facing a sharper and longer decline. Japan's GDP declined at a 2.2% annual rate in the third quarter of 2001. For 2002, the Blue Chip forecast expects Japan's economy to show a 0.7% decline in GDP.

In the absence of any new shocks to the confidence of travelers, visitor counts should improve considerably in 2003. However, it could be mid 2003 before visitor arrivals are back to pre-September 11, 2001 levels.

Total wage and salary jobs in the state were expected to increase nearly 2% in 2001, but layoffs in the last 3 ½ months of the year are now expected to reduce the gain to 0.4%. After inflation, the real gain in State Personal Income and Gross State Product (GSP) will also be positive for 2001, despite the fourth quarter declines. Real Personal Income is forecast to show a 2.0% increase for the year, while real GSP is expected to increase by 1.2%.

If the impact of international events and domestic security concerns remain relatively neutral, DBEDT expects Hawaii to show a 3.0% gain in visitor arrivals for 2002, but the gain will not be enough to make up for visitor arrivals lost in 2001. Therefore, job count will likely experience a modest decline of about 0.7% in 2002.

The forecast expects all sectors of the state's economy to attain pre-September 11, 2001 levels or better by the second half of 2003. Increasing strength in the state's visitor markets is expected to boost arrivals by about 6.7% in 2003 and bring the total visitor count for the year back up to the year 2000 level. This will help the overall job count manage a 2.0% increase for 2003. The economy should then be poised for better than average growth in 2004.

As a result of the events of September 11, 2001, the Governor called the Legislature into a third special session, which convened on October 22, 2001 and adjourned on October 31, 2001. Fifteen measures were enacted by

the Legislature and approved by the Governor. These measures appropriated moneys for food, housing, health insurance, and jobs for residents of Hawaii potentially affected by the economic impact of those events. One measure transferred \$33 million from the Tobacco Settlement Special Fund to the Emergency Budget and Reserve Fund (Rainy Day Fund) to provide for public health, safety and welfare needs. To stimulate the construction industry, \$100 million of general obligation bond funds were appropriated for education-related improvements and another \$300 million of revenue bond funds and private contributions were approved for the construction of a university health and wellness center. The Hawaii Tourism Authority was given an additional \$10 million to promote Hawaii as a tourist destination. The Legislature appropriated \$47 million for the Department of Transportation to provide for security measures for the State airports, harbors and highways. Changes were enacted to the Hawaii Public Procurement Code to provide greater flexibility for the purchase of goods, services and construction. The Governor was also given special powers to declare an economic emergency during the period from September 11, 2001 to April 30, 2002, and was empowered to suspend certain statutes, rules or orders and adopt rules to provide relief to residents of the State to facilitate continuity of business activity and services, minimize employee layoffs and prevent endangerment of public health, safety or welfare; and to suspend, waive or defer certain contract obligations owed to the State. Finally, the Governor was authorized to waive landing fees and airport system support charges. Pursuant to such authorization, the Governor instituted a waiver of landing fees beginning in September, and instituted a waiver of the minimum guaranteed payments for concession operators at the airports, whose rent is now based on a percentage of gross receipts. Both waiver programs continue on a month-to-month basis, but will terminate automatically April 30, 2002, unless further action is taken by the Legislature.

# Information on Employment, Wages and Salaries, Tax Revenues and Tax Base

Table B-1

## SELECTED ECONOMIC ACTIVITIES: STATE

SERIES	UNIT	3rd QUARTER 2001		YEAR TO DATE	
		NUMBER	% CHANGE YEAR AGO	NUMBER	% CHANGE YEAR AGO
CIVILIAN LABOR FORCE <sup>(1)</sup> .....	Persons	608,950	2.2	604,150	1.6
Civilian Employment .....	Persons	581,050	1.9	577,350	1.6
Civilian Unemployment .....	Persons	27,900	8.3	26,800	1.5
UNEMPLOYMENT RATE <sup>(2)</sup> .....	%	4.6	0.3	4.4	0.0
TOTAL NON-AGRICULTURE WAGE & SALARY <sup>(1)</sup> ..	Jobs	553,800	0.7	557,800	1.7
Contract Construction .....	Jobs	23,550	-3.1	23,550	0.9
Manufacturing .....	Jobs	17,700	1.1	17,450	1.7
Transportation, Communication, Utilities .....	Jobs	42,750	0.0	42,900	1.8
Trade .....	Jobs	139,150	1.2	139,150	2.4
Retail .....	Jobs	117,550	1.5	117,350	2.6
Finance, Insurance, & Real Estate .....	Jobs	33,700	1.0	33,700	0.7
Services & Miscellaneous .....	Jobs	185,900	0.4	186,900	2.6
Hotels .....	Jobs	38,600	-0.1	38,750	1.4
Health .....	Jobs	37,300	0.9	37,350	2.2
Business .....	Jobs	31,250	0.8	31,300	4.2
Government .....	Jobs	111,100	1.2	114,200	0.1
State .....	Jobs	63,300	3.2	66,950	1.1
Federal .....	Jobs	30,650	-1.0	30,500	-1.9
Local .....	Jobs	17,150	-1.7	16,700	-0.3
AGRICULTURE WAGES AND SALARIES <sup>(1)</sup> .....	Jobs	7,550	-7.4	7,150	-10.1
STATE GENERAL FUND REVENUES .....	\$1,000	789,188	1.9	2,432,629	4.5
TRANSIENT ACCOMMODATIONS TAX .....	\$1,000	44,900	7.0	138,552	3.6
GENERAL EXCISE AND USE TAX .....	\$1,000	406,543	1.5	1,251,231	2.8

Notes: (1) Labor force and jobs based on monthly rounded data were rebenchmarked in March 2001.

(2) Change represents absolute change in rates rather than percentage change in rates.

Sources: Hawaii State Department of Labor & Industrial Relations; Hawaii State Department of Taxation; and Smith Travel Research, PricewaterhouseCoopers LLP. Compiled by Hawaii State Business Economic Development & Tourism Planning Information System.

## Key Economic Indicators

Table B-2

## ACTUAL AND FORECASTED KEY ECONOMIC INDICATORS FOR HAWAII: 2000 TO 2004

Economic Indicators	2000	%	2001	%	2002	%	2003	%	2004	%
	Actual	Change	Forecast	Change	Forecast	Change	Forecast	Change	Forecast	Change
Total population (in thousands) .....	1,216.4	(NA)	1,226.1	0.8	1,235.9	0.8	1,224.6	0.7	1,253.3	0.7
Visitor arrivals (in thousands) .....	6,948.6	3.1	6,321.4	-9.0	6,510.9	3.0	6,949.1	6.7	7,120.4	2.5
Honolulu CPI-U (1982-84=100) .....	176.3	1.7	178.6	1.3	180.9	1.3	184.0	1.7	187.5	1.9
Personal income (in million dollars) .....	33,776.0	4.1	33,789.3	3.3	35,485.1	2.0	36,798.0	3.7	38,233.1	3.9
Personal income (in \$1992 million) .....	29,745.0	2.4	30,251.8	2.0	30,463.6	0.7	31,072.9	2.0	31,684.4	2.0
Total wage & salary jobs (in thousands) .....	559.4	3.1	561.9	0.4	557.9	-0.7	569.1	2.0	580.4	2.0
Gross state product (in million dollars) .....	39,394.3	5.3	40,376.6	2.5	41,130.0	1.9	42,564.4	3.5	44,217.7	3.9
Real gross state product (in \$1992 million) .....	35,142.1	3.7	35,556.2	1.2	35,754.8	0.6	36,383.2	1.8	37,091.7	1.9
Gross state product deflator (1992=100) .....	112.1	1.5	113.6	1.3	115.0	1.2	117.0	1.7	119.2	1.9

NA - not available.

Source: Hawaii State Department of Business, Economic Development & Tourism, December 2001.

## Labor Force and Jobs

In the third quarter of 2001, Hawaii's civilian employment exhibited a moderate increase over the previous quarter and the third quarter of 2000. It was the tenth straight quarter that civilian employment increased. The number of civilians unemployed rose, but the unemployment rate held steady.

Increases in both employment and unemployment were made possible by continued growth in the available labor force to an all-time high of 608,950. Compared to the third quarter of 2000, the civilian labor force rose 2.2% (Table 1). This follows the 1.3% second quarter 2001 year-to-year increase that was then the fastest labor force increase since 1996.

Civilian employment increased 1.9% from the third quarter 2000 through the third quarter of 2001. The number of unemployed increased 2,150, or 8.3% over the same period in 2000. However, the unemployment rate declined from 4.6% to 4.5%. This seeming anomaly results from the labor force increasing more than unemployment. (Table 1)

Non-agricultural wage and salary jobs increased by 0.7% measured year-to-year for the third quarter. The retail trade sector and the services sector produced much of the job growth in the private sector with increases of 1,700 jobs, a 1.5% increase, and 800 jobs, a 0.4% increase, respectively, over the third quarter of 2000. Retail trade at 117,550 jobs set a new third quarter employment record. (Table 1)

A number of other industries also showed positive job growth in the third quarter of 2001 compared to the same period in 2000. Jobs increased in manufacturing (1.1%) to reach the highest level since 1994. Jobs also increased in transportation and utilities (1.8%); and finance, insurance and real estate (1.0%). On the other hand, jobs declined in construction (-3.1%); communications (-2.3%); wholesale trade (-.2%); and agriculture (-7.4%). (Table 1)

Total government jobs increased 1.2% in the third quarter of 2001. Federal government and local government jobs fell 1.0% and 1.7%, respectively, from the third quarter of 2000. State government jobs increased 3.2% from the third quarter of 2000. The Department of Education accounted for 77% of the State jobs increase. (Table 1)

Table B-3

### CIVILIAN LABOR FORCE AND EMPLOYMENT (in thousands of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1991	573.8	5.9	557.8	5.8	2.8
1992	584.0	1.8	557.4	-0.1	4.6
1993	586.0	0.3	560.9	0.6	4.3
1994	580.2	-1.0	545.0	-2.8	6.1
1995	576.4	-0.6	542.7	-0.4	5.9
1996	593.6	3.0	555.8	2.4	6.4
1997	594.7	0.2	556.7	0.2	6.4
1998	594.4	-0.1	557.2	0.1	6.2
1999	592.8	-0.3	559.6	0.4	5.6
2000	595.5	0.4	569.9	1.8	4.3
2001 <sup>1</sup>	608.9	2.2	581.1	1.9	4.5

<sup>1</sup> As of Third Quarter 2001.

Note: Data from 1998 were rebenchmarked by DLIR in March 2001.

Source: Hawaii State Department of Labor and Industrial Relations.

## Income and Prices

Personal income continued to grow during the second quarter of 2001 (the period for which the latest data are available). Wages and salaries, other labor income, transfer payments, and proprietors' income showed substantial

increases. Growth was more moderate for dividends, interest, and rent. All industries except finance, insurance, and real estate saw increases in earnings during the period.

All the components of personal income saw increases in the second quarter of 2001 compared to the second quarter of 2000: personal income rose 4.1%; wages and salaries, which account for about 57% of personal income, rose by 4.8%, or by over \$900 million; other labor income rose by 4.9%; proprietors' income grew by 3.3%; dividends, interest, and rent rose by 1.0%; and transfer payments, consisting largely of retirement and medical payments, grew by 5.8%. (Table 4)

Private sector earnings increased across almost all industries. In dollar terms, the largest increases came in services followed by transport and public utilities; retail trade; manufacturing; and construction. Earnings declined in finance, insurance and real estate. Earnings in manufacturing grew 16.9%, which was the highest percentage of any industry. Earnings increased by 3.3% in the public sector, entirely as a result of the 5.6% increase in the federal component. (Table 4)

The robust increases in personal income are significant, since inflation in Hawaii remains low. The Honolulu consumer price index rose by only 1.3% in the first half of 2001 compared to the same period in 2000 (Table 6). This was lower than was expected for Honolulu and also much lower than the 3.4% inflation experienced on the Mainland during the period.

**Table B-4**

**PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES**  
(in millions of dollars at seasonally adjusted annual rates)

Series	Annual Average 1999	Annual Average 2000	Ann Avg % Change 1999-2000	Second Quarter 2000	Second Quarter 2001	% Change 2 <sup>nd</sup> Qtr 00 - 2 <sup>nd</sup> Qtr 01
Derivation of Personal Income						
Wage and salary disbursements.....	18,277	19,254	5.3	19,228	20,158	4.8
Plus: Other labor income.....	2,749	2,799	1.8	2,772	2,908	4.9
Plus: Proprietors' income.....	2,548	2,609	2.4	2,614	2,701	3.3
Less: Personal contribution for social insurance.....	1,312	1,365	4.0	1,366	1,420	4.0
Dividends, interest, rent.....	6,261	6,389	2.0	6,378	6,440	1.0
Transfer payments.....	3,928	4,089	8.7	4,081	4,319	5.8
Personal income.....	32,450	33,776	4.1	33,708	35,106	4.1
Earnings by Industry.....	23,573	24,663	4.6	24,614	25,767	4.7
Farm.....	217	200	-7.8	201	226	12.4
Nonfarm.....	23,356	24,463	4.7	24,413	25,541	4.6
Private.....	16,195	17,181	6.1	17,158	18,045	5.2
Agriculture forestry, fishery, other.....	141	150	6.2	149	153	2.7
Mining.....	25	26	6.1	26	28	7.7
Construction.....	1,316	1,471	11.8	1,448	1,541	6.4
Manufacturing.....	714	756	6.0	750	877	16.9
Transportation and public utilities.....	1,840	1,936	5.2	1,903	2,061	8.3
Wholesale trade.....	835	871	4.3	864	920	6.5
Retail trade.....	2,623	2,762	5.3	2,745	2,880	4.9
Finance, insurance, real estate.....	1,962	1,964	0.1	2,003	1,965	-1.9
Services.....	6,739	7,246	7.5	7,270	7,621	4.8
Government & government enterprises.....	7,162	7,282	1.7	7,256	7,496	3.3
Federal, civilian.....	1,836	1,960	6.8	1,950	2,057	5.5
Federal, military.....	2,294	2,382	3.8	2,341	2,476	5.8
State and local.....	3,032	2,940	-3.0	2,965	2,964	0.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *State Quarterly Personal Income*, April 24, 2001, and tabulations by the Hawaii State Department of Business, Economic Development & Tourism.

Table B-5

**PERSONAL INCOME**  
(in millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE <sup>1</sup>
1990	24,915	10.8
1991	26,198	5.1
1992	27,859	6.3
1993	29,068	4.3
1994	29,740	2.3
1995	30,202	1.6
1996	30,393	0.6
1997	31,218	2.7
1998	31,854	2.0
1999	32,450	1.9
2000	33,776	4.1
2001 (2 <sup>nd</sup> Qtr)	35,106	4.1

(1) percentage change from the same period in previous year.

Source: U.S. Department of Commerce, Bureau of Economic Analysis. *State Quarterly Personal Income: October 24, 2001* and tabulations by the Hawaii State Department of Business, Economic Development & Tourism.

Table B-6

**CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U), AND  
SELECTED ITEMS, FOR U.S. AND HONOLULU: 1992-2000**  
(1982-1984 = 100)

HONOLULU										
Year	U.S.	All Items	Food & Beverages	Housing	Apparel & Upkeep	Trans.	Medical Care	(1) Recreation	(1) Education & Comm.	Other Goods & Services
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2000 <sup>(2)</sup>	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
2001 <sup>(2)</sup>	176.6	178.1	168.3	178.8	99.97	176.0	246.1	102.1	103.5	287.5

(1) New indexes as of January 1998. Base period is December 1997.

(2) As of 1<sup>st</sup> half.

Source: U.S. Bureau of Labor Statistics, August 16, 2001.

### Tourism

Economic activity in the visitor industry declined in the third quarter of 2000 from the third quarter of 2001. The number of visitors arriving by air decreased 9.7% in the third quarter of 2000 from the third quarter of 2001, which was the largest quarterly decline in total visitor arrivals since the first quarter of 1991. The number of travelers on domestic flights declined by 6.6% and the number on international flights fell 15.2%. (Table 7)

Considering visitors from various major market areas, the greatest absolute and relative decrease came from visitor arrivals from Japan. Japanese visitors, staying in Hawaii overnight or longer, decreased by over 65,000, or

13.3%, from third quarter 2000 to the third quarter 2001. While this decrease was accelerated following September 11, 2001, it was already in progress as a result of the recession in the Japanese economy and the weakening Yen.

The total average daily census numbers were down by 6.7% from the third quarter of 2000 to the third quarter of 2001. By flight direction, the average daily visitor census for domestic and international visitors was down 5.6% and 9.9%, respectively. The average daily census reflects both arrivals and length of stay. Average length of stay increased 1.1% and 6.3% for domestic and international visitors over the same period. (Table 7)

Hotel occupancy rates also dropped, decreasing from 78.0% in the third quarter of 2000 to 70.6% in the third quarter of 2001. A drop in hotel occupancy rates is to be expected when the arrivals and the visitor census rates decline. (Table 8)

**Table B-7**

**VISITOR ARRIVALS <sup>1)</sup>**  
**Average Length of Stay, Visitor Days, Average Daily Census**  
**(Percentage Change from the Same Period in Previous Year)**

	<u>3<sup>rd</sup> QUARTER 2000</u>	<u>3<sup>rd</sup> QUARTER 2001</u>	<u>% Change</u>
<b>TOTAL ARRIVALS</b>			
Total Visitor Arrivals .....	1,818,701	1,642,014	-9.7
Domestic Flight Arrivals .....	1,159,909	1,083,222	-6.6
International Flight Arrivals .....	658,792	558,792	-15.2
<b>AVERAGE LENGTH OF STAY</b>			
Total Visitor Arrivals .....	8.67	8.96	3.3
Domestic Flight Arrivals .....	10.00	10.11	1.1
International Flight Arrivals .....	6.34	6.73	6.3
<b>VISITOR DAYS</b>			
Total Visitor Arrivals .....	15,772,940	14,714,296	-6.7
Domestic Flight Arrivals .....	11,598,900	10,952,048	-5.6
International Flight Arrivals .....	4,174,040	3,762,340	-9.9
<b>AVERAGE DAILY CENSUS</b>			
Total Visitor Arrivals .....	171,445	159,938	-6.7
Domestic Flight Arrivals .....	126,075	119,044	-5.6
International Flight Arrivals .....	45,370	40,895	-9.9

*1) Staying overnight or longer.*

*Source: Hawaii State Department of Business, Economic Development & Tourism.*

Table B-8

**HOTEL OCCUPANCY RATE**  
(in percent)

<u>Year</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Annual</u>
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	68.0	71.5
1999	77.1	67.5	74.8	68.9	72.1
2000	78.2	74.5	78.0	72.8	76.0
2001	80.5	70.0	70.6	NA	NA

NA – Not available.

*Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995.*

*Source: Hawaii State Department of Business, Economic Development & Tourism and PKF — Hawaii and Hospitality Advisors LLC.*

**Construction**

Construction industry activity in the third quarter of 2001 decreased from the prior year's third quarter level. Both the contracting tax base (a measure of construction put in place) and government contracts awarded are down from a year ago.

As of the third quarter of 2001, the contracting tax base, the activity subject to the general excise tax, had increased 3.4% from the same period last year. The contracting tax base is a proxy for completed construction. This measure grew by almost 21% in 2000. (Table 9)

Construction jobs also decreased in the third quarter as compared to 2000. Construction jobs declined 3.1% from the third quarter of 2000 to the third quarter of 2001. (Table 1) By county, construction jobs grew 14.8% in Hawaii County; realized no gain or loss in Kauai County; fell 6.5% in the City and County of Honolulu and declined 1.8% in Maui County.

Private building permit authorizations, a measure of prospective construction activity, showed positive growth in Hawaii County and the City and County of Honolulu, expanding by 86.4% and 4.3%, respectively. Private authorization decreased on Kauai by 23.0% in the third quarter of 2001 from the year-earlier quarter. Data for Maui County are not available for the third quarter of 2001.

As of the third quarter 2001, government contracts awarded were down 35.1% from the same period a year ago. Most of the decline is attributed to a surge in government contract awards in the third quarter of 2000 where 405.1 of the total of 810.9 awards for the entire year of 2000 were made. (Table 9)

The Honolulu Construction Cost Index for Single Family Residences increased by 5.2% over the third quarter of 2000. The comparable index for high-rise buildings rose by 5.1%.

Table B-9

**ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE  
BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED**  
(in millions of dollars and percentage change from the previous period)

Year	Contracting Tax Base	%	Private Building Authorizations						Govt. Contracts Awarded			
			Private Authorizations	%	Residential	%	Commercial Industrial <sup>1)</sup>	%	Additions/ Alterations	%		
1990	4,003.7	29.1	2,101.8	11.7	952.3	4.6	698.0	24.2	451.5	10.1	825.5	13.8
1991	4,334.1	4.5	2,151.8	2.4	1,192.0	25.2	556.2	-20.3	403.7	-10.6	729.4	-11.6
1992	4,012.7	-8.2	1,751.9	-18.6	811.1	-32.0	532.3	-4.3	408.5	1.2	1,159.1	58.9
1993	3,803.6	-4.2	1,505.4	-14.6	742.1	-9.4	308.0	-42.5	455.3	11.5	651.8	-43.8
1994	3,322.3	-12.4	1,612.9	7.8	849.3	15.6	370.3	20.9	393.4	-13.6	693.0	6.3
1995	3,133.5	-4.9	1,531.3	-5.1	745.5	-12.2	368.3	-0.5	417.5	6.1	490.2	-29.3
1996	3,285.1	2.8	1,117.8	-27.1	487.0	-34.7	252.8	-31.4	378.0	-9.5	885.5	80.7
1997	2,944.4	-10.4	1,179.2	5.5	542.5	11.4	264.5	4.6	372.2	-1.5	615.6	-30.5
1998	3,016.0	-1.3	1,054.3	-10.6	485.5	-10.5	205.6	-22.2	363.2	-2.4	685.5	11.3
1999	2,991.2	-0.8	1,320.2	29.7	628.8	33.3	306.2	25.3	385.3	13.4	584.8	-14.7
2000 <sup>2)</sup>	3,613.5	20.8	1,512.6	14.6	800.1	27.2	246.2	-19.6	466.2	21.0	810.9	1.5
2001	2,732.1 <sup>3)</sup>	3.4	771.5 <sup>4)</sup>	3.6	406.0 <sup>4)</sup>	2.0	174.5 <sup>4)</sup>	30.0	191.1 <sup>4)</sup>	-10.0	466.8 <sup>3)</sup>	-35.1

1) Includes hotels.

2) Kauai County data for November consist of residential data only.

3) As of third quarter 2001 – latest data available.

4) As of second quarter 2001 – latest data available.

Source: Hawaii State Department of Taxation; F.W. Dodge; County building departments; First Hawaiian Bank, Building Industry, and tabulation by Hawaii State Department of Business, Economic Development & Tourism.

Table B-10

**ESTIMATED VALUE OF PRIVATE BUILDING  
CONSTRUCTION AUTHORIZATIONS, BY COUNTY**  
(in thousands of dollars and percentage change from the previous year)

Year	State	%	City & County of Honolulu	%	Hawaii County	%	Kauai County	%	Maui County	%
1990	2,101,767	11.7	998,921	-4.7	429,964	27.2	238,968	33.7	433,916	36.7
1991	2,151,849	2.4	1,462,676	46.4	369,454	-14.1	118,547	-50.4	201,174	-53.6
1992	1,751,871	-18.6	1,060,700	-27.5	379,158	2.6	111,098	-6.3	200,916	-0.1
1993	1,496,486	-14.6	959,041	-9.6	248,236	-34.5	86,032	-22.6	203,177	1.1
1994	1,612,899	7.8	1,073,264	11.9	181,059	-27.1	164,681	91.5	193,894	-4.6
1995	1,531,317	-5.1	980,703	-8.6	267,108	47.5	78,918	-52.1	204,588	5.5
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.4	772,825	10.6	155,776	-8.8	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.5	624,227	-19.2	178,220	14.4	88,196	-9.2	163,640	7.1
1999	1,320,218	29.7	706,358	20.8	243,852	36.8	140,846	59.7	229,162	40.0
2000 <sup>1)</sup>	1,512,601	14.5	694,223	-0.0	321,704	31.9	141,313	0.3	355,360	55.1
2001	771,530 <sup>2)</sup>	3.6	515,052 <sup>3)</sup>	5.4	280,181 <sup>3)</sup>	26.4	147,892 <sup>3)</sup>	33.2	166,628 <sup>2)</sup>	-17.8

1) Kauai County data for November consist of residential data only.

2) As of second quarter 2001 – latest data available.

3) As of third quarter 2001 – latest data available.

Source: County Building Permits.

## Federal Government Expenditures

Total expenditures by the federal government in the State for the fiscal years<sup>1</sup> 1992 to 2000 were \$6.6 billion, \$7.3 billion, \$7.6 billion, \$7.5 billion, \$8.0 billion, \$8.2 billion, \$8.4 billion, \$8.6 billion, and \$9.0 billion respectively. Federal government outlays for both defense and nondefense activities are among the largest expenditures in the State. Overall, federal spending in Hawaii is roughly 12% of Gross State Product (GSP), with much of that being defense-related. At \$7,441, per capita federal spending in Hawaii in fiscal year 2000 ranked sixth highest among the states after Alaska, Virginia, Maryland, North Dakota, and New Mexico. Hawaii maintained its ranking as second in per capita federal defense expenditures in fiscal year 2000. This was the fifth year in a row that the federal government spent more than a billion dollars in procurement in Hawaii with \$1.3 billion in fiscal year 2000.

In fiscal year 2000, the federal government paid wages and salaries of \$2.4 billion to active and inactive military and civilian employees. The Federal government employed 30,050 civilian and 33,930 active-duty military personnel in 2000.

Defense expenditures fluctuated between \$2.9 billion in 1992 and \$3.5 billion in fiscal year 2000. Military spending in Hawaii remains a relatively stable and important source of outside income. Because of the strategic location of Hawaii in the Pacific, the overall Hawaii federal defense sector has increased from \$3,356 million in fiscal year 1999 to \$3,473 million in fiscal year 2000. This was an increase of 3.5% compared to a 0.3% increase at the national level. The latest data from the U.S. Department of Commerce indicate that the total earnings of military personnel in the second quarter of 2001 were 5.8% higher than a year earlier. Total federal civilian jobs in the armed forces decreased by 4.2% from the second quarter of 2001 compared to the same period in 2000.

In the fiscal year 2002 Military Construction Appropriations Bill and National Defense Authorization Bill<sup>2</sup> are \$382.81 million and \$444 million respectively for defense-related initiatives for Hawaii for a total of greater than \$826.81 million<sup>3</sup>. In the former, among the Military Construction projects are land purchases, construction and renovation projects for headquarters and support, bachelor and family housing units, and infrastructure. By service, the projects and their appropriations are: Defense-wide: \$29.2 million; Department of the Army \$92.3 million; Department of the Navy and Marine Corps \$286.2 million; and Department of the Air Force \$25.0 million.

Major fiscal year 2002 non-defense program authorizations include the U.S. Department of Education's \$39.5 million for Hawaii's Impact Aid. This funding is part of funding nationwide and represents a nearly \$10 million increase from funds the State received last year. The programs provide support to school districts with students who are children of members of the armed forces and federal government employees (fiscal year 2001: \$30.4 million).

Approximately \$228 million was appropriated for Hawaii transportation initiatives for construction, equipment and services. Some \$20.7 million will go to the City & County of Honolulu to reduce commuter traffic congestion and improve transit services, and Honolulu Bus Rapid Transit (\$12 million) to implement the Honolulu Bus Rapid Transit 9-year project and an additional \$8.7 million to City & County of Honolulu's for the Middle Street Transit Center. The State of Hawaii will receive an estimated \$29 million from the Federal Transit Administration and \$142 million from the Federal Highway Administration in formula grants.

Other projects will support the U.S. Coast Guard (\$7.2 million), improvements to roadways on federal lands (\$6 million), improvements to the State of Hawaii's ferryboat infrastructure (\$5.15 million), Sand Island Bridge (\$5 million), Saddle Road (\$4 million), the Rainbow Communications System Modernization (\$3.1 million), Alien Species Action Plan (\$3 million), Farrington Highway (\$2 million), Sand Island Intermodal Cargo Tracking (\$1 million) and continued funding for Kamuela, Hana, and Kalaupapa under the Essential Air Service (EAS) program.

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<sup>1</sup> The federal fiscal year is October 1 through September 30 of the year designated.

<sup>2</sup> President George W. Bush has signed both bills into law but the State details are not readily available.

<sup>3</sup> Current as of Senator Daniel K. Inouye's Press Release December 20, 2001  
<http://www.senate.gov/~inouye/01pr/2001C2000.html>.

## **Banks and Other Financial Institutions**

As of June 30, 2001, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies were reported at \$23.6 billion, a 4.2% decrease from 2000. The four State-chartered banks accounted for \$22.6 billion of such assets.

## **Transportation**

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

*Sea Transportation.* The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, surface transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 1999, 2000 and 2001 amounted to 15.5 million short tons, 16.9 million short tons, and 17.2 million short tons, respectively.

The State has ten harbors to facilitate the movement of goods from the mainland, foreign and inter-island ports: Honolulu Harbor and Kalaeloa Barbers Point Harbor (Oahu), Kahului Harbor (Maui), Hilo Harbor and Kawaihae Harbor (Hawaii), Nawiliwili Harbor and Port Allen Harbor (Kauai), Kaunakakai Harbor (Molokai) and Kaunapau Harbor (Lanai). The number of commercial vessels entering all ports was 8,350 in fiscal year 1999, 8,400 in fiscal year 2000 and 8,376 in fiscal year 2001.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export of overseas cargo. Overseas and inter-island cargo tonnage handled through the Honolulu Harbor was 7.5 million short tons in fiscal year 1999, 8.2 million short tons in fiscal year 2000 and 8.4 million short tons in fiscal year 2001. The harbors are continuously maintained through the issuance of appropriate special maintenance contracts to ensure the availability of safe and effective harbor facilities.

*Air Transportation.* The State operates and maintains fifteen airports at various locations within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls for 4,579 vehicles, HNL is the most important in the State airports system. The airfield at Barbers Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July, 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo, and Kona International Airport at Keahole both on the island of Hawaii and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

According to data from the Airports Council International, HNL is the 39th busiest air terminal in the world, ranking 23rd in the United States in total passengers serviced in 2000. In 2000, HNL recorded 345,771 aircraft operations.

Statewide, combined incoming and outgoing overseas air cargo decreased from 387,053 tons in 1999 to 340,132 tons in 2000. Statewide, combined overseas and intrastate air cargo, decreased from 525,421 tons in 1999 to 490,915 tons in 2000. Although of high unit value, air cargo still remains relatively insignificant compared with surface shipping.

The two major inter-island carriers, Aloha Airlines and Hawaiian Airlines, have announced their intent to merge. Any such merger will be subject to various regulatory and other obstacles, and the State cannot predict either the likelihood of its success or its potential effect on the economy of the State.

*Land Transportation.* In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,455 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 138 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 995 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

Motor vehicle registration in 1991 was 920,124 vehicles, decreased to 908,738 vehicles in 1992; 903,550 vehicles in 1993; 898,008 vehicles in 1994; increased to 901,291 vehicles in 1995; 907,770 vehicles in 1996; decreased to 906,964 vehicles in 1997; increased to 915,753 vehicles in 1998; 929,474 vehicles in 1999; and 964,738 vehicles in 2000.

### **Education**

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2000-2001 school year, system enrollment totaled 183,520 in 261 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Public school enrollment has been decreasing from the 1999-2000 and 2000-2001 school years due to a net increase in out-migration and declining birth rates. Within the total student count, the number of students in regular education has decreased, while the number of special education students has increased.

In the fall of 2000, 44,579 students attended State colleges and universities, 17,263 of them on the Manoa Campus of the University of Hawaii. The University of Hawaii Manoa Campus offers bachelors, masters, and doctorate degrees, as well as a certificate in teaching. The system of community colleges, within the University of Hawaii system, offers associate in arts and associate in science degrees and certificates, including certificates of achievement.

### **State Housing Programs**

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other state efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs are carried out by the Housing and Community Development Corporation of Hawaii (the "Corporation"). The Corporation is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the Corporation and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

*The following is a summary of certain of the provisions of the Certificate. The summary does not purport to be complete or to follow the exact language of the Certificate and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meanings set forth in the Certificate. For the complete provisions of the Certificate and the precise wording thereof, reference should be made to the Certificate, copies of which are available upon request at the office of Bond Counsel or the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.*

#### Definitions of Certain Terms (Certificate – Section 1.01)

The following are definitions in summary form of certain terms contained in the Certificate and used in this Official Statement.

“*Additional Bonds*” means, collectively, any Additional Bonds issued under and pursuant to the provisions of the Certificate and, unless the context otherwise requires, any Refunding Bonds issued under and pursuant to the provisions of the Certificate.

“*Aggregate Net Revenues*” means (A) for any period prior to the date of calculation: (i) Revenues accrued during such period (after allowance for doubtful accounts deemed appropriate by the Department), minus (ii) Operation and Maintenance Expenses accrued during such period; and (B) for any period subsequent to the date of calculation, with respect to Section 6.03 of the Certificate: (i) estimated Revenues for such period, minus (ii) estimated Operation and Maintenance Expenses for such period.

“*Aggregate Certificate Bond Service*” means, as of any date of calculation and with respect to any period, the sum of the amounts of Bond Service for all Series of Bonds, Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds for such period.

“*Bond Service*” means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from amounts credited to the 1997 Certificate Harbor Interest Account, and (ii) that portion of the next succeeding Principal Installment for the Bonds of such Series that would have accrued during such period if each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days’ duration) in equal amount from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof.

(A) The assumed interest rate on Variable Rate Bonds for purposes of this definition shall be determined as follows: (a) with respect to a Series of Variable Rate Bonds against which an Interest Rate Swap Agreement has been executed pursuant to which the Department agrees to pay a fixed rate, the assumed interest rate will equal the fixed rate to be paid by the Department under the Interest Rate Swap Agreement and (b) with respect to any other Series of Variable Rate Bonds then outstanding or proposed to be issued the interest rate shall be assumed to be a rate equal to the long-term revenue bond index rate as published by the Bond Buyer, or other similar publication within 10 days of calculation:

(B) In determining the principal amount due in each Fiscal Year for any Capital Appreciation Bonds, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any mandatory sinking account payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a

principal payment and interest that is compounded and paid as part of Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(C) If the Bonds are Paired Obligations, the interest rate on such Bonds shall be the resulting linked rate or effective fixed interest rate to be paid by the Department with respect to such Paired Obligations;

(D) If any Interest Rate Swap Agreement is in effect pursuant to which the Department pays a variable rate, and such swap is payable on a parity with the Bonds to which it relates (provided, however, that any termination or other cancellation payment due under the Interest Rate Swap Agreement shall be subordinate to the Bonds) no amounts payable under such interest rate swap agreement shall be included in the calculation of Bond Service unless the sum of (i) interest payable on such Bonds, plus (ii) amounts payable by the Department under such interest rate swap agreement, less (iii) amounts receivable by the Department under such interest rate swap agreement are greater than the interest payable on the Bonds to which it relates, then, in such instance, the amount of such payments to be made that exceed the interest to be paid on the Bonds shall be included in each calculation. For such purposes the variable amount under any such interest rate swap agreement shall be assumed to be equal to a rate equal to the assumed Revenue Bond Index-based rate, as published by *The Bond Buyer*, or other similar publication, within 10 days of calculation;

(E) If any Bonds feature an option, on the part of the Bondowners or an obligation under the terms of such Bonds, to tender all or a portion of such Bonds to the Department, or other fiduciary or agent and require that such Bonds or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds, the options or obligations of the Owners of such Bonds to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which Owners of such Bonds may or are required to tender such Bonds except that any such option or obligation to tender Bonds shall be ignored and not treated as a principal maturity, if (1) such Bonds are rated in one of the two highest long-term Rating Categories by Moody's and by Standard & Poor's or such Bonds are rated in the highest short-term note or commercial paper Rating Categories by Moody's and Standard & Poor's and (2) funds for the purchase price of such Bonds are to be provided by a Support Facility and the obligation of the Department with respect to the provider of such Support Facility, other than its obligations on such Bonds (including any increased interest rate thereon), shall be subordinated to the obligations of the Department on the Bonds;

(F) For purposes of calculating annual debt service on any Balloon Bonds, it shall be assumed that the principal of those Balloon Bonds, together with interest thereon at a rate equal to the assumed Revenue Bond Index-based rate, as published in *The Bond Buyer* or other similar publication, will be amortized in equal annual installments over a term of 30 years.

When used with reference to Capital Improvement Bonds or 1990 Certificate Harbor Revenue Bonds, "Bond Service" shall have the meaning set forth in the Capital Improvement Certificate and the 1990 Certificate, respectively.

"*Capital Appreciation Bonds*" means Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Certificate providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

"*Capital Improvement Bonds*" means all Harbor Capital Improvement Revenue Bonds issued and Outstanding under the Capital Improvement Certificate.

"*Capital Improvement Certificate*" means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Capital Improvement Revenue Bonds dated September 1, 1967, as amended and supplemented.

"*Capital Improvement Special Fund*" means the second separate harbor special fund created in the treasury of the State by that paragraph which begins with the word "Fifth" of Section 266-19, Hawaii Revised Statutes, prior to amendment by Act 309, Session Laws of Hawaii, Regular Session 1989 and continued pursuant to paragraph (a) of Section 266-19, Hawaii Revised Statutes, as amended.

"Code" means the Internal Revenue Code of 1986, as from time to time amended, and any successor statute thereto, and any Treasury regulations or proposed regulations thereunder. Any reference herein to any Section of the Code shall be deemed to refer to any amended or successor provision enacted or promulgated after the date of this Certificate, but only with respect to each particular Series of Bonds to the extent effective as to such Series.

"Event of Default" means any occurrence or event specified under "Events of Default; Remedies" below.

"Federal Securities" means any of the following:

(i) any direct and general obligations of, or any obligations fully and unconditionally guaranteed as to the full and timely payment of principal and interest by, the United States of America;

(ii) any obligations issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America: United States Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership); Farmers Home Administration (certificates of beneficial ownership); Federal Financing Bank; Federal Housing Administration (debentures); General Services Administration (participation certificates); Government National Mortgage Association ("GNMA") (GNMA-guaranteed mortgage-backed bonds; GNMA-guaranteed pass-through obligations); United States Maritime Administration (guaranteed Title XI financing); New Communities Debentures (United States Government guaranteed debentures); United States Public Housing Notes and Bonds (United States Government guaranteed public housing notes and bonds); and United States Department of Housing and Urban Development (project notes; local authority bonds);

(iii) any obligations of any state or political subdivision of a state (collectively, "Municipal Bonds") which Municipal Bonds are either (A) rated "Aaa" by Moody's and "AAA" by S&P (whether such rating is based upon the credit of the issuer, an insurance policy, a letter of credit or otherwise) or (B) fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bonds, and which Municipal Bonds are rated "Aaa" by Moody's and "AAA" by S&P and provided, however, that such Municipal Bonds are accompanied by (a) an opinion of Bond Counsel to the effect that such Municipal Bonds are not subject to redemption prior to the date the proceeds of such Municipal Bonds will be required for the purposes of the investment being made therein and (b) a report of an Independent Public Accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bonds; and

(iv) securities commonly referred to as CATs, TGRs, STRIPs, other certificates of direct ownership of the principal of, or interest on, direct and general obligations of the United States of America or certificates of direct ownership of the interest on obligations of the Resolution Funding Corporation, which obligations are held by a commercial bank which is a member of the Federal Reserve System in trust on behalf of the holders of the derivative product;

provided, however, that the term "Federal Securities" shall exclude unit investment trusts or mutual funds which otherwise meet the criteria set forth above in clauses (i) through (iv) unless the trust or fund is in the highest rating category of the Rating Agency.

"Fiscal Year" means the fiscal year for the State as established from time to time by the State, being on the date of effectiveness of this Certificate the period from July 1 in any year to and including the following June 30.

"Harbor Consultant" means an independent person or firm or corporation who shall have a widely known and favorable reputation for special skill, knowledge and experience in methods of the development, operation and management of harbors of the approximate size and character as the properties constituting the Undertaking. The Independent Public Accountant or Consulting Engineer may be appointed as a Harbor Consultant, but the Department is not limited in its selection to such persons or entities.

*“Interest Payment Date”* means, with respect to any particular Series of Bonds, any date on which interest is payable on such Series of Bonds as such date shall be established in the Supplemental Certificate providing for the issuance of such Series of Bonds.

*“Net Revenues”* means (A) for any period prior to the date of calculation, and so long as there are 1990 Certificate Harbor Revenue Bonds Outstanding or Capital Improvement Bonds Outstanding:

(i) Revenues accrued during such period (after allowance for doubtful accounts deemed appropriate by the Department), minus

(ii) deposits made from Revenues during such period to (so long as there are Capital Improvement Bonds Outstanding) the Capital Improvement Special Fund to pay debt service on the Capital Improvement Bonds (including any such deposits made during such period to restore the Capital Improvement Debt Service Reserve Account to the amount required to be credited thereto), minus

(iii) Operation and Maintenance Expenses accrued during such period, minus

(iv) deposits made during such period to the Harbor Revenue Special Fund to pay debt service on the 1990 Certificate Harbor Revenue Bonds (including any such deposits made during such period to restore the Harbor Debt Service Reserve Account to the amount required to be credited thereto);

(B) for any period prior to the date of calculation, after there are no Capital Improvement Bonds Outstanding and no 1990 Certificate Harbor Revenue Bonds Outstanding, (A)(i) minus (A)(iii);

(C) for any period subsequent to the date of calculation, and so long as there are Capital Improvement Bonds Outstanding or 1990 Certificate Harbor Revenue Bonds Outstanding:

(i) estimated Revenues for such period, minus

(ii) deposits due from Revenues for such period to (so long as there are Capital Improvement Bonds Outstanding) the Capital Improvement Special Fund to pay debt service on the Capital Improvement Bonds (including any such deposits made during such period to restore the Capital Improvement Debt Service Reserve Account to the amount required to be credited thereto), minus

(iii) estimated Operation and Maintenance Expenses for such period, minus

(iv) deposits due for such period to the Harbor Revenue Special Fund to pay debt service on the 1990 Certificate Harbor Revenue Bonds (including any such deposits estimated to be made to restore the Harbor Debt Service Reserve Account to the amount required to be credited thereto);

(D) for any period subsequent to the date of calculation, after there are no Capital Improvement Bonds Outstanding and no 1990 Certificate Harbor Revenue Bonds Outstanding, (C)(i) minus (C)(iii).

*“1990 Certificate”* means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor Revenue Bonds dated as of November 15, 1990, as amended and supplemented.

*“1990 Certificate Harbor Revenue Bonds”* means all State of Hawaii Harbor Revenue Bonds issued and Outstanding under the 1990 Certificate.

*“1997 Certificate Harbor Debt Service Reserve Account”* means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the “1997 Certificate Harbor Debt Service Reserve Account.”

*"1997 Certificate Harbor Interest Account"* means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Interest Account."

*"1997 Certificate Harbor Principal Account"* means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Principal Account."

*"1997 Certificate Harbor Reserve and Contingency Account"* means the separate special account of the Department created pursuant to the Certificate in the 1997 Certificate Harbor Revenue Special Fund and designated in that Section as the "1997 Certificate Harbor Reserve and Contingency Account."

*"1997 Certificate Harbor Revenue Special Fund"* means the special fund of that name created in the Certificate.

*"Operation and Maintenance Expenses"* means the expenses of operation and maintenance of the properties constituting the Undertaking and the expenses of operation of the Department, including general administrative overhead, in connection with those properties, but excluding any (i) arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code, (ii) depreciation expense, (iii) surcharges imposed by the State for central services expenses and (iv) Qualified Litigation Costs (defined under *"Undertaking"* below).

*"Outstanding,"* when used with respect to any Bond, shall have the construction given to such word under *"Discharge of Liens and Pledges; Bonds No Longer Deemed Outstanding Under the Certificate"* below, i.e., a Bond shall not be Outstanding hereunder if such Bond is at the time not deemed to be Outstanding by reason of the operation and effect of said Section.

For purposes of the Certificate, in the event any Bonds of a Series are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the holders of the Bonds are entitled to take pursuant to Articles X and XI of the Certificate or otherwise, shall be the Accreted Value thereof. Prior to the issuance and delivery of any Series of Bonds of the character described in this paragraph, a certificate of the Department shall be executed setting forth the accreted value thereof as of each Interest Payment Date for such Series of Bonds to the stated maturity date thereof, which certificate shall be conclusive in the absence of manifest error. Unless otherwise provided in the Supplemental Certificate providing for the issuance of a Series of Bonds, this paragraph shall apply only to issues with an original issue discount in excess of 5% from the par amount thereof.

When used with reference to the 1990 Certificate Harbor Revenue Bonds and the Capital Improvement Bonds, *"Outstanding"* shall have the meaning set forth in the 1990 Certificate and the Capital Improvement Certificate, respectively.

*"Paired Obligations"* means any Series (or portion thereof) of Bonds designated as Paired Obligations in the Supplemental Certificate or other document authorizing the issuance or incurrence thereof, which are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be redeemed (or canceled after acquisition thereof) on the same dates and in the same amounts, and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the Certificate for the terms of such Bonds.

*"Rate Covenant"* means the covenant by the State in the Certificate relating to rates and charges, which is summarized in the Official Statement under the heading "SECURITY FOR THE BONDS - Rates and Charges."

*"Reserve Requirement"* means an amount, as of any date of determination, equal to the maximum Aggregate Bond Service for any Bond Year, beginning with the Bond Year in which the date of determination occurs and ending with the Bond Year after which no Bonds are Outstanding; provided, however, the deposit to the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account from the

Proceeds of any Series of Bonds shall be deemed to satisfy the Reserve Requirement if such deposit is equal to the lesser of (1) Average Annual Bond Service on such Series and (2) the amount permitted by the Code in order that the interest on such Series is excluded from gross income for federal income tax purposes.

"Revenues" means and includes (A) all income, revenues and moneys derived by the State from the ownership or operation of the Undertaking or the supplying and furnishing of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from rates, rentals, fees, tolls and charges assessable and chargeable by the Department in respect to dockage, wharfage, demurrage and rates appertaining to the Undertaking or derived from the rental of all or part of the Undertaking or from the sale or rental of any commodities or goods in connection with the Undertaking; earnings on the investment of moneys held under the Capital Improvement Certificate, the 1990 Certificate or the Certificate and the proceeds of the sale of any such investments; earnings on the investment of the proceeds of Bonds; and to the extent provided in Article VI of the Certificate, income derived by the Department or otherwise derived by the State from a Net Rent Lease (defined under "*Certain Covenants by the State – Net Rent Leases*" below); (B) income, revenues and moneys paid to the State or the Department with respect to properties that constitute part of the Undertaking on the effective date of the Certificate but are sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate so as to no longer constitute part of the Undertaking; and (C) any other moneys or funds deposited by the State or the Department into the Harbor Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; provided, however, that the term "Revenues" shall not include:

- (i) moneys received as proceeds from the sale of Bonds or Special Obligation Bonds;
- (ii) condemnation proceeds or insurance proceeds except insurance proceeds received from rental or business interruption insurance;
- (iii) grants-in-aid or similar payments received from public agencies, provided that (1) the application of such moneys is restricted to a specific purpose or (2) such grants or payments constitute a reimbursement to the State for expenditures previously made from the Harbor Special Fund, the Capital Improvement Special Fund or the 1997 Certificate Harbor Revenue Special Fund;
- (iv) moneys or securities received by the State or the Department as gifts or grants, the use of which is restricted by the donor or grantor;
- (v) investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the State, including Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds and the Bonds;
- (vi) any arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code; and
- (vii) the proceeds of any Support Facility.

"Series 1997 Bonds" means the State of Hawaii Harbor System Revenue Bonds, Series of 1997, being the initial Series of Bonds issued pursuant to the Certificate.

"Sinking Fund Installment" means, with respect to each Series of Bonds, the amount designated as such in the Supplemental Certificate authorizing such Series of Bonds. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited pursuant to the Certificate toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"Support Agreement" means the agreement or agreements, if any, entered into by the Department which provide for a Support Facility, and any and all modifications, alterations, amendments and supplements thereto.

*"Support Facility"* means any instrument entered into or obtained in connection with a Series of Bonds such as a letter of credit, a committed line of credit, insurance policy, surety bond or standby bond purchase agreement, or any combination of the foregoing, and issued by a bank or banks, other financial institution or institutions, or any combination of the foregoing, which Support Facility provides for the payment of (i) the purchase price equal to the principal of and accrued interest on Bonds delivered to the Remarketing Agent or any depository, tender agent or other party pursuant to a Remarketing Agreement or Supplemental Certificate and discount, if any, incurred in remarketing such Bonds and/or (ii) principal of and interest on all Bonds becoming due and payable during the term thereof.

*"Undertaking"* means and includes all harbors, harbor and waterfront improvements, ports, docks, wharves, quays, bulkheads and landings and other related facilities and properties (real, personal or mixed) now belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, and all improvements, betterments or extensions thereto hereafter constructed or acquired, except in all cases such facilities and properties as are principally used for recreation or the landing of fish (except properties located at Kewalo Basin, Ewa of Ala Moana Park, Honolulu, and its annex), and without limiting the generality of the foregoing, the term *"Undertaking"* shall include each and every, all and singular, the properties and facilities constructed or acquired from the proceeds of the obligations issued under the Resolution of the Board of Harbor Commissioners adopted September 18, 1950 or constructed or acquired from the proceeds of Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds or Bonds issued under the Certificate or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal and interest of which is reimbursable, from the Harbor Special Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the Harbor Special Fund or in any other fund maintained therefrom and any settlement (negotiated, court-ordered or otherwise), judgment or order and related costs, arising from any litigation or relating to any of the foregoing properties and facilities to which the State or the Department is a party related to such properties or facilities or to which any of such properties and facilities are bound (any such settlement, judgment or order and related costs are hereinafter referred to as *"Qualified Litigation Costs"*); provided, however, that the term *"Undertaking"* shall not include:

- (1) any State ferry system established, financed and maintained pursuant to Chapter 268, Hawaii Revised Statutes, or established, financed and maintained pursuant to any other law;
- (2) properties sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate;
- (3) properties subject to a Net Rent Lease except to the extent provided in Article VII of the Certificate; and
- (4) properties in Kewalo Basin and Fort Armstrong to be transferred from the jurisdiction of the Department to the Hawaii Community Development Authority pursuant to Act 86, Session Laws of Hawaii, 1990.

*"Value of Investment Securities"* and words of like import means the amortized value thereof; provided, however, that all United States Treasury Obligations—State and Local Government Series shall be valued at par and those obligations which are redeemable or otherwise subject to payment (including purchase) at the option of the owner thereof shall be valued at the price at which such obligations are then redeemable, or otherwise subject to payment. The computations made under this definition shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition, *"amortized value,"* when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par means, as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

*"Variable Rate Bonds"* means any Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof, based upon an index or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this

definition, Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

**Additional Bonds and Refunding Bonds** (Certificate – Sections 4.02, 4.03 and 4.04)

***Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds.*** The Department at any time and from time to time may authorize the issuance of one or more Series of additional Bonds (“Additional Bonds”) or refunding Bonds (“Refunding Bonds”) payable from the 1997 Certificate Harbor Revenue Special Fund on a parity with the Series 1997 Bonds and any Additional Bonds or Refunding Bonds then Outstanding and equally and ratably secured therewith, upon compliance with the following conditions:

1. The issuance of the Additional Bonds or Refunding Bonds shall have been authorized by law and are issued under and pursuant to a Supplemental Certificate.
2. In the case of the issuance of Additional Bonds, upon compliance with the additional conditions summarized below.
3. In the case of the issuance of Refunding Bonds, upon compliance with the additional conditions summarized below.

Nothing in the Certificate shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Department from issuing Variable Rate Bonds, Capital Appreciation Bonds, Paired Obligations or entering into an Interest Rate Swap Agreement. The Supplemental Certificate providing for the issuance of Variable Rate Bonds, Balloon Bonds (as defined in the Certificate), Capital Appreciation Bonds or Paired Obligations may provide for, without limitation, the following: Support Facilities or alternative Support Facilities and Support Agreements in connection therewith; Remarketing Agreements and the appointment of Remarketing Agents; the appointment of tender agents to accept mandatory or optional tenders of Variable Rate Bonds; the payment, redetermination and accrual over specified periods of interest or Accreted Value; the establishment, use, composition, adjustment and change-of-interest indices or modes or the establishment and use of alternative interest indices or modes or the establishment of a fixed interest rate or rates; the establishment of special funds and accounts in connection with the issuance of Variable Rate Bonds, Capital Appreciation Bonds or Paired Obligations; special redemption or purchase provisions for such Variable Rate Bonds and notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds; and any other terms and provisions not in conflict with the Certificate.

***Additional Conditions for the Issuance of Additional Bonds.*** Each of the following conditions, in addition to those set forth above, shall be met upon the issuance of Additional Bonds:

- a. Such Bonds shall be issued only for the purpose of the payment or reimbursement of the cost of the acquisition or construction of properties to constitute part of the Undertaking or the making of additions to, expansions of, improvements of, renewals of, replacements of, or reconstructions of, the Undertaking or of properties which shall constitute part of the Undertaking (including, without limitation, any Qualified Litigation Costs, as defined in the Certificate);
- b. The Supplemental Certificate providing for the issuance of such Bonds shall provide that any accrued interest received upon the sale of said Bonds or any interest capitalized from the proceeds of said Bonds shall be paid into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account;
- c. At the time of the issuance of such Additional Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond, any 1990 Certificate Harbor Revenue Bond or any Capital Improvement Bond; no deficiencies exist in the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; the Rate Covenant is satisfied currently without regard to provisions concerning curative action; and there does not exist an Event of Default or a condition which upon the passage of time would constitute an Event of Default;

d. The Aggregate Net Revenues as derived from the most recent audited financial statements or for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the Department of the Supplemental Certificate authorizing the issuance of such Additional Bonds (the "Designated Period"), as certified by the Independent Public Accountant, are at least equal to (i) one and twenty-five hundredths (1.25) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds, or (ii) one (1.00) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds and the sum of (1) the Aggregate Net Revenues for the Designated Period, as certified by the Independent Public Accountant and as adjusted as thereafter required, and (2) the Anticipated Net Revenue Increase (hereinafter defined), if any, is at least equal to one and twenty-five hundredths (1.25) times the Aggregate Certificate Bond Service for any future Fiscal Year on all Bonds, 1990 Certificate Harbor Revenue Bonds and Capital Improvement Revenue Bonds to be Outstanding after the issuance of such Additional Bonds; and

e. Upon the delivery of any Series of Additional Bonds there shall be on deposit in the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement, provided that the Supplemental Certificate providing for the issuance of such Series of Additional Bonds may provide that part of the proceeds thereof shall be paid into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account.

For the purposes of making the determinations required by clause (ii) of paragraph d. above:

A. In the event that at any time during the Designated Period the State acquired existing properties which at the time of such acquisition were used for harbor purposes and if the State shall have title to and possession of such properties on the day of such delivery and such properties shall constitute part of the Undertaking on such day, or in the event that any existing properties are to be acquired by the State from the proceeds of the Additional Bonds proposed to be issued, which properties at the time of such acquisition are used for harbor purposes, then in either event (or in both events) the Aggregate Net Revenues as determined by the Independent Public Accountant for the Designated Period shall be increased or decreased by the Harbor Consultant to reflect the revenues (if any) which would have been derived by the Department from, and the costs of operation and maintenance which would have been incurred by the Department with respect to, such properties during the said period and otherwise adjusted if necessary, so as to reflect the result had such properties been operated by the Department as part of the Undertaking throughout the Designated Period;

B. In the event that at any time prior to the day of the delivery of the proposed Additional Bonds, or in the event that during the month in which such Additional Bonds are to be delivered (but prior to such delivery), the Department has imposed increases in its schedule of rentals, rates, fees, tolls and charges, which increases are or shall be in effect upon the delivery of such Additional Bonds, the Aggregate Net Revenues for the aforesaid period may be adjusted by the Harbor Consultant to reflect the results had such increased rates been in effect throughout such entire period; and

C. "Anticipated Net Revenue Increase" means such increase in Aggregate Net Revenues as estimated by the Harbor Consultant for such period the Harbor Consultant deems reasonable and taking into account such factors as such consultant deems pertinent, including, without limitation, (1) of construction of additional facilities to constitute part of the Undertaking (including in the word "construction" the making of additions and expansions to or renovations or reconstructions of existing facilities constituting part of the Undertaking, or the acquisition of properties not theretofore used for harbor purposes which are to constitute part of the Undertaking) and (2) the Rate Covenant.

***Additional Conditions for the Issuance of Refunding Bonds.*** The following conditions, in addition to those set forth above, shall be met upon the issuance of Refunding Bonds: Refunding Bonds may be issued to refund prior to maturity all or part of the Capital Improvement Bonds, the 1990 Certificate Harbor Revenue Bonds or the Outstanding Bonds, including therein amounts to pay principal, redemption premium and interest to the redemption date on the Bonds, the 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds to be refunded, which Bonds, 1990

Certificate Harbor Revenue Bonds or Capital Improvement Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds, provided (1) at the time of the issuance of such Refunding Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bonds, 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds; no deficiencies exist in the Harbor Special Fund, the Capital Improvement Special Fund, the Harbor Revenue Special Fund or the 1997 Certificate Harbor Revenue Special Fund; the Rate Covenant is satisfied currently without regard to provisions concerning curative action, and there does not exist an Event of Default or a condition which upon the passage of time would constitute such an Event of Default; (2) the aggregate of the Bond Service on such Refunding Bonds shall be less than the aggregate of the Bond Service on the Capital Improvement Bonds, 1990 Certificate Harbor Revenue Bonds or Bonds to be refunded were such refunding not to occur; and (3) upon the delivery of such Refunding Bonds there shall be on credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement.

Nothing in the Certificate shall be deemed to apply to or construed to prevent a refunding at one time of all Bonds then Outstanding.

Nothing in the Certificate shall prevent the Department from issuing Additional Bonds without compliance with the provisions for issuance of Refunding Bonds, for the purpose of refunding all or any portion of Outstanding Bonds, 1990 Certificate Harbor Revenue Bonds or Capital Improvement Bonds.

#### **Allocation and Application of Revenues (Certificate – Section 5.01.)**

There is created the 1997 Certificate Harbor Revenue Special Fund, which shall be comprised of the following accounts: 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account, 1997 Certificate Harbor Debt Service Reserve Account and Harbor Reserve and Contingency Account.

So long as any Capital Improvement Bonds are Outstanding, (1) the Harbor Special Fund and the Capital Improvement Special Fund shall both be continued and (2) all Revenues shall be deposited in the Harbor Special Fund and applied in the order of priority set forth in the Capital Improvement Certificate with the exception that, in accordance with the Capital Improvement Certificate, the Revenues shall be deposited into the Harbor Revenue Special Fund after and subordinate to the payments, deposits and credits required by all the provisions of priority items FIRST and SECOND of Section 5.01 of the Capital Improvement Certificate and before and senior to the payments, deposits and credits required by all the provisions of priority items THIRD through NINTH of said Section 5.01.

So long as any 1990 Certificate Harbor Revenue Bonds are Outstanding (1) the Harbor Revenue Special Fund shall be continued and (2) all Revenues shall be deposited in the Harbor Revenue Special Fund and applied in the order of priority set forth in the 1990 Certificate, with the exception that, in accordance with the 1990 Certificate, the Revenues shall be deposited into the 1997 Certificate Harbor Revenue Special Fund after and subordinate to the payments, deposits and credits required of all the provisions of priority items FIRST and SECOND of Section 5.01 of the 1990 Certificate and before and senior to the payments, deposits and credits required by all the provisions of priority items, THIRD through SEVENTH of said Section 5.01.

The Revenues deposited or to be deposited into the 1997 Certificate Harbor Revenue Special Fund shall be applied, used and disposed of as follows, and in the following order of priority:

FIRST: for Operation and Maintenance Expenses:

SECOND: for credit to the following accounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- a. 1997 Certificate Harbor Interest Account;
- b. 1997 Certificate Harbor Principal Account; and
- c. 1997 Certificate Harbor Debt Service Reserve Account;

THIRD: for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Undertaking, including, without limitation, Operation and Maintenance Expenses, acquisitions (including real property and interests therein), constructions, additions, expansions, improvements, renewals, replacements, reconstruction, engineering, investigation, and planning for the Undertaking, and Qualified Litigation Costs, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FOURTH: to reimburse the general fund of the State for Reimbursable General Obligation Bonds;

FIFTH: for deposit into the 1997 Certificate Harbor Reserve and Contingency Account;

SIXTH: to provide funds for other special reserve funds and other special funds as may be created by law; and

SEVENTH: all or any portion of available moneys on deposit in the 1997 Certificate Harbor Revenue Special Fund, after satisfying the requirements of priority items FIRST through FIFTH above, determined by the Director of Transportation to be in excess of 150% of the requirements for the ensuing 12 months for the 1997 Certificate Harbor Revenue Special Fund may be transferred from the 1997 Certificate Harbor Revenue Special Fund as permitted by and in accordance with Sections 37-53 and 266-19, Hawaii Revised Statutes, as amended, or any successor statute thereto.

At such time as there are no longer any Capital Improvement Bonds Outstanding, the Capital Improvement Special Fund and the Harbor Revenue Special Fund shall be consolidated into the Harbor Special Fund, all references therein to the Harbor Revenue Special Fund shall be deemed to refer to the Harbor Special Fund, and the Revenues shall continue to be deposited into the Harbor Special Fund.

At such time as there are no longer any 1990 Certificate Harbor Revenue Bonds Outstanding, the 1997 Certificate Harbor Revenue Special Fund shall be consolidated into the Harbor Special Fund, all references therein to the 1997 Certificate Harbor Revenue Special Fund shall be deemed to refer to the Harbor Special Fund, and the Revenues shall continue to be deposited in the Harbor Special Fund.

**1997 Certificate Harbor Interest Account.** (Certificate – Section 5.02.) The moneys credited to the 1997 Certificate Harbor Interest Account shall be disbursed solely for the purpose of paying interest on the Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Bonds, if any, is provided for from the proceeds of a Series of Bonds, (a) with respect to each Series of Bonds (other than Variable Rate Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Bonds of such Series are Outstanding, the Department shall credit to the 1997 Certificate Harbor Interest Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Bonds on such Interest Payment Date or the amount required to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment thereof; and (b) with respect to Variable Rate Bonds which have Interest Payment Dates occurring at intervals of one month or less, on the first Business Day of the month prior to each Interest Payment Date the Department shall credit to the 1997 Certificate Harbor Interest Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund the amount required, together with other funds available therefor credited to such account, to pay, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of, the interest payable on such Interest Payment Date or Dates on the Outstanding Variable Rate Bonds. In making the credits to the 1997 Certificate Harbor Interest Account required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Bonds, and for interest capitalized from the proceeds of a Series of Bonds (which accrued or capitalized interest shall in each case be deposited in the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account), and for any other credits otherwise made to said account. Variable Rate Bonds shall be assumed to bear interest at the assumed interest rate as determined pursuant to subparagraph (A) of the definition of "Bond Service," and monthly credits made with respect to Variable Rate Bonds shall be adjusted to the extent possible to reflect the actual interest rate on Variable Rate Bonds in the preceding month

so that, as of any Interest Payment Date, the amount available is sufficient to pay the interest then due; provided, however, that any payments to a Support Provider pursuant to a Support Agreement as Holder of a Bond which are in excess of the stated rate of interest on such Bond, whether denominated additional interest, penalty rate or otherwise, shall not constitute interest for purposes of this paragraph.

**1997 Certificate Harbor Principal Account.** (Certificate – Section 5.03.) In the event of the issuance of any Series of Bonds under the Certificate maturing at times customarily known as maturing serially, in order to provide for the payment of principal of such Bonds of such Series, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Bonds maturing serially and in each month thereafter so long as any of such Bonds so maturing are Outstanding, there shall be credited to the 1997 Certificate Harbor Principal Account an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Bonds becoming due on such principal payment date.

In the event of the issuance of any Series of Bonds under the Certificate in the form customarily known as “term bonds,” for the purpose of retiring such Bonds, or to reimburse the Support Provider for a draw on the Support Facility made to provide funds for the payment of such term Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Bonds is due, and in each month thereafter so long as any of such Bonds are Outstanding, there shall be credited to the 1997 Certificate Harbor Principal Account from amounts on deposit in the 1997 Certificate Harbor Revenue Special Fund an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the 1997 Certificate Harbor Principal Account for the purpose of providing for the retirement of Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Bonds with the second Sinking Fund Installment for each such Series, semiannually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment dates. The Director of Finance shall give notice of all such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the 1997 Certificate Harbor Principal Account for the retirement of term Bonds of a Series to the purchase of said Bonds; provided, however, that no Bonds shall be purchased during the interval between the date on which notice of redemption of said Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice or are purchased from moneys other than those credited to the 1997 Certificate Harbor Principal Account for such Series, and provided, further, that no purchases of Bonds shall be made if such purchase would require the sale at a loss of securities credited to the 1997 Certificate Harbor Principal Account unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor is greater than the loss upon the sale of any such securities. Any purchase of Bonds pursuant to this paragraph may be made with or without tenders of Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Bonds purchased or redeemed pursuant to this paragraph shall be canceled and not reissued.

If the principal amount of Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking

Fund Installments, such excess or the principal amount of Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Bonds.

**1997 Certificate Harbor Debt Service Reserve Account.** (Certificate – Section 5.05.) The 1997 Certificate Harbor Debt Service Reserve Account shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Bonds for the payment of which there shall be insufficient money in the 1997 Certificate Harbor Interest Account or 1997 Certificate Harbor Principal Account. The Reserve Requirement shall be determined at the time of issuance of a Series of Bonds. July 1 of each year, at the time any Variable Rate Bonds of a Series cease to be Variable Rate Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Bonds.

Subject to the remaining provisions of this paragraph. (a) if at any time during a Fiscal Year the moneys on credit to the 1997 Certificate Harbor Debt Service Reserve Account are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Net Revenues; (b) if at the end of any Fiscal Year, the moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account are less than the Reserve Requirement, the Department shall (after making the deposits and credits required by the Certificate) credit an amount to the 1997 Certificate Harbor Debt Service Reserve Account from Net Revenues on deposit in the 1997 Certificate Harbor Revenue Special Fund so that there shall then be credited to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement; (c) if the deficiency in the 1997 Certificate Harbor Debt Service Reserve Account is due to the application of moneys credited thereto to pay principal of or interest on a Series of Bonds, then in each month, commencing with the month which follows the month in which such application is made from the 1997 Certificate Harbor Debt Service Reserve Account, the Department shall (after making the required deposits and credit) credit from the Net Revenues on deposit in the 1997 Certificate Harbor Revenue Special Fund to the 1997 Certificate Harbor Debt Service Reserve Account an amount which, if the same amount were so credited in each month thereafter until the day which is 60 months from the making of the first of such credits, there shall be credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the 1997 Certificate Harbor Revenue Special Fund for use and application as are all other moneys on deposit therein.

When a Series of Bonds is refunded in whole or in part or is otherwise paid so that all of the Bonds of such Series are no longer Outstanding, moneys credited to the 1997 Certificate Harbor Debt Service Reserve Account may be withdrawn from the 1997 Certificate Harbor Revenue Special Fund to pay or provide for the payment of such Bonds or refunded Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Bonds issued to refund such refunded Bonds, provided that immediately after such withdrawal or transfer there shall be on credit to the 1997 Certificate Harbor Debt Service Reserve Account an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the 1997 Certificate Harbor Debt Service Reserve Account, the Department may cause to be so credited a surety bond or an insurance policy payable to the Department for the benefit of the Holders of the Bonds of a Series or a letter of credit in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the 1997 Certificate Harbor Debt Service Reserve Account. In the event a surety bond, insurance policy or letter of credit is secured to satisfy a portion of the Reserve Requirement allocable to a Series of Bonds, so long as such surety bond, insurance policy or letter of credit is in effect, the Owners of such Series of Bonds shall not be entitled to payment from or a lien on the funds on deposit in the 1997 Certificate Harbor Revenue Special Fund credited to the 1997 Certificate Harbor Debt Service Account to satisfy that portion of the Reserve Requirement allocable to other Series of Bonds, nor shall the Owners of Bonds of such other Series be entitled to any payment from such surety bond, insurance policy or letter of credit. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the 1997 Certificate Harbor Debt Service Reserve Account to the payment of the principal of or interest on any Bonds of such Series and such withdrawals may not be made from amounts credited to the 1997 Certificate Harbor Debt Service Reserve Account for such other Series of Bonds. Prior to the use of a surety bond, insurance policy or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of

issuance of the Series 1997 Bonds), the Department shall receive written confirmation from the Rating Agency that the rating on the Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to credit to the 1997 Certificate Harbor Debt Service Reserve Account, funds in the amount of the disbursement made under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the 1997 Certificate Harbor Debt Service Reserve Account allocable to a Series of Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period permitted by clause c. under "*Events of Default; Remedies – Events of Default*" below. Notwithstanding the provisions of said clause c., the Department shall not permit any surety bond, insurance policy or letter of credit which has been established in lieu of a deposit into the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Debt Service Reserve Account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy or letter of credit.

***1997 Certificate Harbor Reserve and Contingency Account.*** (Certificate – Section 5.06.) Moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account may be used (i) to make up any deficiency with respect to any Series of Bonds, Capital Improvement Bonds or 1990 Certificate Harbor Revenue Bonds in the 1997 Certificate Harbor Interest Account, the 1997 Certificate Harbor Principal Account and the 1997 Certificate Harbor Debt Service Reserve Account, (ii) to the extent not used to make up any such deficiencies and to the extent all other legally available moneys have been applied, moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account may be used for any other purpose within the jurisdiction, powers, duties and functions of the Department related to the Undertaking and (iii) to the extent not required pursuant to clauses (i) and (ii) above, moneys on credit to the 1997 Certificate Harbor Reserve and Contingency Account in excess of 25% of the maximum Aggregate Certificate Bond Service due in any future fiscal year may be transferred out of the 1997 Certificate Harbor Reserve and Contingency Account and applied in any legally permissible manner.

***Investment of Moneys in Funds and Accounts.*** (Certificate – Section 5.07.) Moneys in the 1997 Certificate Harbor Revenue Special Fund credited to the 1997 Certificate Harbor Interest Account and the 1997 Certificate Harbor Principal Account therein shall be invested by the Director of Finance in Investment Securities so as to mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at maturity or upon the redemption thereof. Moneys in the 1997 Certificate Harbor Revenue Special Fund on credit to the 1997 Certificate Harbor Debt Service Reserve Account therein shall be invested by the Director of Finance in Federal Securities so as to mature within five years from the date of investment, but in any event by no later than the last or final maturity date of the Bonds then Outstanding. The Department thereby grants its approval for all investments made by the Director of Finance pursuant to this paragraph, and no further approvals of the Department shall be necessary therefor.

Income derived from investments made pursuant to Section 5.07 of the Certificate shall be treated as Revenues; expenses of purchase, safekeeping, sale and redemption, and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department.

All moneys in the 1997 Certificate Harbor Revenue Special Fund, the investment of which is not provided for in Section 5.07 of the Certificate, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law.

All securities shall constitute a part of the respective fund or account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the 1997 Certificate Harbor Special Fund, or any fund or account therein, which may be required for the purposes of the Certificate, the Value of Investment Securities shall be determined at the time of any withdrawal therefrom and as of July 1 of each year.

The Department will maintain records to enable it to cause to be made the computations necessary to determine whether a Series of Bonds the interest on which is excludable from gross income for federal income tax

purposes meets the requirements of Section 148 of the Code, including, but not limited to, records showing the dates and amounts of all investments of funds credited to the 1997 Certificate Harbor Interest Account, the 1997 Certificate Harbor Principal Account and the 1997 Certificate Harbor Debt Service Reserve Account and the dates and amounts of the receipts of the earnings, sales proceeds and maturities of such investments.

#### **Certain Covenants by the State**

The Rate Covenant is summarized in this Official Statement under the heading "SECURITY FOR THE BONDS - Rates and Charges." As to certain other subjects, summaries of the State's covenants follow:

***Accounts – Independent Public Accountant.*** (Certificate – Section 6.06.) The Department shall maintain and keep, or cause to be maintained and kept, proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking. Such accounts shall show the amount of the Revenues and the application of such Revenues to the purposes specified in the Certificate and in the Capital Improvement Certificate and the 1990 Certificate and all financial transactions in connection therewith, including all deposits into and disbursements from the Harbor Special Fund, the Harbor Capital Improvement Special Fund, the Harbor Revenue Special Fund and the 1997 Certificate Harbor Revenue Special Fund.

The Department shall cause its accounts to be audited by an accountant (the "Independent Public Accountant") employed by it, such period of appointment or employment to be from year to year. Such Independent Public Accountant shall be selected with special reference to his general knowledge, skill and experience in auditing books and accounts and shall be a certified or licensed accountant or firm of certified or licensed accountants who, or each of whom, is in fact independent and not under the domination of the State (including the Department) and who, or each of whom, is not connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any of the books of the State (including the Department). Such audit shall be made annually and shall be completed within 270 days after the close of each Fiscal Year, shall set forth the items required to determine compliance with the Rate Covenant and shall include a detailed statement of the Revenues and the expenditure and application thereof for such year and a detailed balance sheet of the Undertaking as of the close of such year, including therein a statement of the Harbor Special Fund, the Capital Improvement Special Fund and accounts therein, the Harbor Revenue Special Fund and accounts therein and the 1997 Certificate Harbor Revenue Special Fund and accounts therein, and be accompanied in writing by a certificate of the Independent Public Accountant. Each such audit shall certify as to the correctness of the schedules contained in the audit report. A copy of each such annual audit shall be filed with the Director of Finance and shall be open for public inspection and shall be mailed to any Holder of the Bonds filing with the Department a request for same. The cost of any such audit shall be an Operation and Maintenance Expense.

***Consulting Engineer.*** (Certificate – Section 6.07.) The Department shall appoint and retain from time to time a Consulting Engineer who shall be an independent engineer or engineers, engineering firm or corporation having a national and favorable reputation for skill and experience in respect to development, operation and management of harbor facilities and who, or each of whom, shall be paid by the Department but shall in fact be independent and not under the domination of the State (including the Department) and who, or each of whom, shall not be connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make triennial or other periodic reports to the State (including the Department) as to other properties thereof. The Consulting Engineer shall be available to advise the Department upon request and to make such investigations and determinations as may be necessary from time to time under the provisions of the Certificate. The Consulting Engineer shall once in every third Fiscal Year make an examination of and report on the operations of the Undertaking, such report to include recommendations as to amounts to be accumulated in the 1997 Certificate Harbor Reserve and Contingency Account created in the 1997 Certificate Harbor Revenue Special Fund and as to any changes in the operation and maintenance of the properties constituting the Undertaking, including changes required in the schedule of rates, rents, fees or other charges for the use of the Undertaking in order to produce the amount of Revenues required to be produced by the Rate Covenant. A copy of each such report shall be filed in the office of the Director of Finance, and a copy shall be forwarded to any Holder of Bonds filing a request therefor with the Department. The cost to the Department of the Consulting Engineer shall be an Operation and Maintenance Expense.

For purposes of determining compliance with the Rate Covenant, satisfaction of the requirements for the issuance of Additional Bonds, and certain other matters, the Department is authorized to use a Harbor Consultant, which may be the Independent Public Accountant or Consulting Engineer.

**Insurance.** (Certificate – Section 6.09.) The Department will carry, or cause to be carried, insurance with generally recognized responsible insurers with policies payable to the Department against such risks, accidents or casualties and in such amounts as the Department determines to be prudent. Any insurance carried by the Department may be procured and maintained as part of or in conjunction with any other policy or policies carried by it or by the State. The Department and the State may be self-insured and establish special funds for self-insurance. The Department shall seek advice and counsel from time to time from the State Risk Management staff or their consultants to advise and assist the Department with respect to the insurance program of the Undertaking, and the Department shall take into consideration the advice of such persons in the placement of insurance and the establishment of any self-insurance fund or funds.

The proceeds of all insurance, to the extent the same shall be paid directly to the Department, shall be held by the Department under and subject to the Capital Improvement Certificate, the 1990 Certificate and the Certificate and applied as follows: (i) the proceeds of property insurance shall be deposited in the treasury of the State and held as a special trust fund, separate and apart from all other funds and moneys, to the end that such proceeds of insurance shall be applied to the reconstruction, restoration or replacement of the properties of the Undertaking damaged or destroyed; (ii) the proceeds of rental or business interruption insurance shall be deposited in the 1997 Certificate Harbor Revenue Special Fund for use and application as are all other moneys deposited in that fund; and (iii) the proceeds of personal injury insurance and any worker's compensation insurance shall be held separate and apart in the 1997 Certificate Harbor Revenue Special Fund and applied toward extinguishing or satisfying or remedying the liability or loss with respect to which such proceeds may be paid.

The Department will, with respect to each such loss, promptly and with all reasonable dispatch, repair, restore, reconstruct or replace the property damaged or destroyed or replace the same with other revenue-producing property or facilities to constitute part of the Undertaking, insofar as the same may be accomplished from proceeds of insurance carried pursuant to clause (i) above, to the extent necessary to the proper conduct of the operation of the business of the Undertaking and in any event so that the Undertaking shall possess at least the same revenue-producing capability as existed prior to the damage and shall apply the proceeds of any insurance policy or policies or self-insurance fund or funds covering such damage or loss for that purpose to the extent required therefor. Notwithstanding the foregoing provisions of this paragraph, no repair, restoration, reconstruction or replacement shall be required if the Department finds that repair, restoration, reconstruction or replacement of the damaged or destroyed property is not in the best interest of the Department and, based on a certificate of the Harbor Consultant, that the failure to repair, restore, reconstruct or replace the damaged or destroyed property will not cause the Revenues in any future Fiscal Year to be less than an amount sufficient to enable the Department to comply with all covenants and conditions of the Capital Improvement Certificate, the 1990 Certificate and the Certificate or impair the security or the payment of the Capital Improvement Bonds, the 1990 Certificate Harbor Revenue Bonds and the Bonds. Any proceeds of any insurance policy or policies or self-insurance fund or funds not required for the purpose of repair, reconstruction, restoration or replacement as aforesaid shall be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited in that fund.

The cost to the Department of all insurance so required by the Certificate shall constitute an Operation and Maintenance Expense.

**Annual Budget.** (Certificate – Section 6.10.) The Department shall prepare and file with the proper officers of the State, at the time and in the manner prescribed by law, an estimated budget of Revenues and Operation and Maintenance Expenses, Bond Service, capital improvements and any other proposed expenditures for the Undertaking for each Fiscal Year, which budgets shall be open to inspection by any Holder of Bonds or other interested party.

**Not To Alienate Ownership, Operation, Management and Control of Undertaking; Disposition of Worn-Out or Useless Property; Right To Alienate Certain Properties for Noncompetitive Uses.** (Certificate – Section 6.11.) The State, whether acting by and through the Department or otherwise, will not sell, lease or otherwise dispose of any properties constituting part of the Undertaking, nor take any action or cause any action to be taken, to alienate from the State the ownership, management and control of the Undertaking and any and all properties constituting a part

thereof, including any land or rights in land comprising the site thereof or necessary to the use or operation thereof, unless simultaneously with any such sale, lease, disposition or alienation due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or there is paid into, or due and adequate provision is made for the paying into, the treasury of the State for deposit in a separate fund therein, of an amount of cash sufficient to retire, and to pay the interest to accrue prior to such retirement on, all Bonds then Outstanding, together with any premium upon the redemption thereof; provided, however, that (i) the provisions of this Section shall not be deemed to prohibit, or construed as prohibiting, the leasing in the normal and customary course of business according to the schedule of rates, rentals and charges of the Department, of properties constituting the Undertaking, which rates, rentals and charges shall be part of the Revenues and which properties shall remain part of the Undertaking, but any such leasing shall be subject to the rights of the Holders of the Bonds and all the provisions of the Certificate; (ii) the State, whether acting through the Department or otherwise, may from time to time sell, lease or otherwise dispose of any portion of the Undertaking (including any real and personal property comprising a part thereof) which the Department has determined has become unserviceable, inadequate, obsolete, worn-out or unfit to be used, or no longer required for use, in connection with the operation of the Undertaking or the maintenance of the Revenues therefrom; (iii) the State, whether acting through the Department or otherwise, may transfer to any other department, board, bureau, agency or other subdivision of the State or to any city, county or other municipal corporation in the State or any department, board, bureau, agency or other subdivision thereof, or to any nonprofit corporation or association, any property constituting part of the Undertaking and such property shall thereafter no longer constitute part of the Undertaking and any moneys derived therefrom shall no longer constitute part of the Revenues under clause (A) of the definition thereof, and such property may be sold, leased or otherwise disposed of as the transferee thereof may determine, if (a) the use thereafter to be made of such property after such transfer is noncompetitive with the Undertaking and (b) in the opinion of the Harbor Consultant such transfer will not reduce the Revenues below the amount required to be produced the Rate Covenant without any increase in the schedule of rates, rents, fees and charges then in effect for the Undertaking or if in the opinion of the Harbor Consultant such transfer would reduce the Revenues below the amount required to be produced in accordance with the Rate Covenant, due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment into the 1997 Certificate Harbor Revenue Special Fund in each year in which any of the Bonds remain Outstanding of an amount equal to the difference between the Revenues produced in each such year and the amount of Revenues required to be produced in such year in accordance with the Rate Covenant; and (iv) the State, whether acting through the Department or otherwise, may from time to time sell, transfer or otherwise dispose of any property constituting part of the Undertaking and such property shall thereafter no longer constitute part of the Undertaking and any moneys derived therefrom shall no longer constitute part of the Revenues under clause (A) of the definition thereof, and such property may be sold, leased or otherwise disposed of as the transferee may determine, if (a) the proceeds of any such sale or transfer are deposited in the 1997 Certificate Harbor Revenue Special Fund as security for the payment of all Bonds then Outstanding, (b) in the opinion of the Harbor Consultant such sale, transfer or other disposition will not reduce Aggregate Net Revenues below the amount equal to one and twenty-five hundredths (1.25) times the amount required to be produced by the Rate Covenant without any increase in the schedule of rates, rents, fees and charges then in effect for the Undertaking and (c) the Department shall receive written confirmation from the Rating Agency that the rating on the Bonds Outstanding as then in effect shall not be reduced as a result of such sale, transfer or disposition. For the purposes of the provisos numbered (iii) and (iv) to the preceding sentence, the Harbor Consultant may assume that all parties to contractual or other agreements will comply with the terms and provisions of such contracts or agreements, including any commitment to pay amounts into the 1997 Certificate Harbor Revenue Special Fund, and any transfer of property to the University of Hawaii or other educational institution for use by it for oceanographic research and study (including therein any such research or study for which such institution may receive income or compensation) shall be considered to be noncompetitive.

***Not To Dilute Security for the Bonds.*** (Certificate – Section 6.12.) Unless, and only while and so long as, due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment into the 1997 Certificate Harbor Revenue Special Fund for use and application in accordance with the provisions of the Certificate the same as all other moneys deposited in that fund, in each year while any of the Bonds remain Outstanding, from moneys lawfully available therefor other than the Revenues, of amounts which when added to the Revenues paid into the 1997 Certificate Harbor Revenue Special Fund in such year, will at least equal the amount of Revenues required to be produced in such year in accordance with the provisions of the Rate Covenant, the State, whether acting by and through the Department or by and through any other department, bureau, board or other agency thereof, shall not own, engage in, erect, construct, maintain or operate any harbors, ports, docks, wharves, piers, warehouses or other waterfront or harbor facilities and improvements of a

commercial nature (excluding properties principally used for recreation or the landing of fish, except properties located at Kewalo Basin, Ewa of Ala Moana Park, Honolulu, and its annex) which are competitive with the Undertaking unless the income derived therefrom constitutes part of the Revenues, to be deposited, used and applied as are all other Revenues, in which event such properties and facilities may constitute part of the Undertaking; provided, however, that nothing in this Section shall be construed as prohibiting the State from retaining or placing under the management and control of some department board, bureau or agency other than the Department, harbor properties and facilities constituting or to constitute a Foreign Trade Zone within the meaning of Chapter 212, Hawaii Revised Statutes, so long as in the opinion of the Harbor Consultant the operations of such Foreign Trade Zone are noncompetitive with the Undertaking, or if in the opinion of the Harbor Consultant the operations of the same are at any time competitive with the Undertaking, either (i) all income derived with respect to such properties through the loading or unloading of cargo from vessels or from wharfage or from harbor fees or demurrage or other fees and charges normally and customarily paid as part of the loading and unloading of cargo and which would normally accrue to or be under the administration and control of the Department constitutes by law part of the Revenues and is paid into the Harbor Special Fund, in which event the costs of operation and maintenance of those properties from which such income is derived may be paid as costs of operation and maintenance of the Undertaking to the same extent as would be the case if such properties were in fact part of the Undertaking, or (ii) due and adequate provision is made for the payment of the Bonds, including interest and premium (if any) thereon, or due and adequate provision is made for the payment, in each year while any of the Bonds remain Outstanding, from moneys lawfully available therefor other than the Revenues, into the 1997 Certificate Harbor Revenue Special Fund for use and application in accordance therewith the same as all other moneys paid into that fund, of amounts which, when added to the Revenues paid into that fund in each such year, will produce the total amount required to be produced in such year in accordance with the Rate Covenant, and provided, further, that the operations of any such Foreign Trade Zone which is in existence at the time of effectiveness of the Certificate shall be deemed to be noncompetitive with the Undertaking.

**Net Rent Leases.** (Certificate – Section 7.01.) The State, either in its own name or acting by and through the Department, may enter into contracts, leases or other agreements pursuant to which the Department will agree to construct a pier, dock, wharf, warehouse or other harbor or waterfront facility on land constituting part of the Undertaking or will agree to acquire or construct a pier, dock, wharf, warehouse or other harbor or waterfront facility on land not then constituting part of the Undertaking (which land if not then owned by the State may be acquired for such purpose), or to acquire and remodel, renovate or rehabilitate a building, structure or other facility (including the site thereof) for harbor purposes (all said piers, docks, wharfs, warehouses, buildings, structures and facilities herein referred to as the “Improvement”), and lease such Improvement under the following conditions:

1. No Improvement will be constructed or acquired and leased for use or occupation (a) if the Improvement would provide services, facilities or supplies which then may be adequately made available through the Undertaking as then existing and (b) if the result of the use or occupation of such Improvement under the contract, lease or agreement therefor would result in a reduction of Net Revenues below the minimum Net Revenues required to be produced and maintained in accordance with the Rate Covenant.

2. A Net Rent Lease (hereinafter defined) shall be entered into between the State (either in the name of the State or by and through the Department), as lessor and the user or occupier of such Improvement, as lessee, pursuant to which the lessee shall agree to pay the Department in each year during the term thereof, which term shall not extend beyond the useful life of the Improvement as estimated by the Harbor Consultant, (i) fixed rentals in periodic installments which will be sufficient to pay during such term the principal of and interest on all Special Obligation Bonds to be issued to pay the cost of construction or acquisition of the Improvement as the same respectively mature, and (ii) such further rentals as shall be necessary or required to provide or maintain all reserves required for such obligations and to pay all trustee’s, fiscal agents’ and paying agents’ fees and expenses in connection therewith.

3. The Net Rent Lease shall provide for payments in periodic installments and as additional rental thereunder to the Department, free and clear of all charges under said lease, (i) of a properly allocable share of the (a) payments to the State to reimburse the general fund of the State for Reimbursable General Obligation Bonds, (b) payments to the State to reimburse administrative costs incurred by the State treasury in maintaining funds and accounts relating to the Undertaking and (c) administrative costs of the Department, and (ii) if the land on which the Improvement is to be constructed constitutes a part of the Undertaking, of a ground rental for the ground upon which such Improvement is located, in amounts not less than shall be

required pursuant to the schedule for rental of ground space in the Undertaking as fixed from time to time by the Department. All such additional rentals shall constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein.

4. The Net Rent Lease shall provide that all rentals payable thereunder pursuant to paragraph 2. above which are not required to pay Special Obligation Bonds issued for the Improvement leased thereby, including reserves for such obligations, or required to pay trustee's, fiscal agents' and paying agents' fees and expenses in connection therewith, shall be paid to the Department for its own use and purposes, and, to the extent permitted by law, such excess amounts shall constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein.

The term "Net Rent Lease" shall mean a lease of property encompassed within the introductory sentence of this Section, under and pursuant to which the lessee agrees to pay to the Department the rentals required by paragraphs 2. and 3. above, and to pay in addition all costs connected with the ownership, operation, maintenance, repair, renewal and rehabilitation of the leased property (including, without limitation, insurance, utilities, taxes or payments in lieu of taxes), under such conditions so that the amounts payable to the Department pursuant to said lease (exclusive of the ground rental, if any, payable pursuant to said paragraph 3.) shall be certainly paid whether or not the leased property is capable of being occupied and used by the lessee.

**Special Obligation Bonds.** (Certificate – Section 7.02.) The State, acting by and through the Department or otherwise, may issue Special Obligation Bonds for the purpose of constructing Improvements on ground then constituting part of the Undertaking or on ground not then constituting part of the Undertaking (which ground may then be owned by the State or acquired for that purpose), or to acquire and renovate and rehabilitate an Improvement (including the acquisition of necessary land), for lease pursuant to the provisions of the Certificate. (See "*Certain Covenants by the State - Net Rent Leases*" above.) Such Special Obligation Bonds (i) shall be payable solely from the rentals payable by the lessee under the Net Rent Lease entered into with respect to the Improvement to be financed from such Special Obligation Bonds; (ii) shall not be a charge or claim against or payable from the Revenues or any other moneys in the Harbor Special Fund, Capital Improvement Special Fund, Harbor Revenue Special Fund or 1997 Certificate Harbor Revenue Special Fund; (iii) shall mature within both the useful life of the Improvement (as estimated by the Harbor Consultant) to be financed from such Special Obligation Bonds and the term of the Net Rent Lease entered into with respect to such Improvement; and (iv) shall not be issued unless and until the following conditions have been met:

A. a certificate of the Harbor Consultant has been filed with the Department setting forth the opinion of such consultant as to the estimated useful life of the Improvement, the costs of acquisition or construction of which are to be financed from such Special Obligation Bonds, and certifying (i) that the construction or acquisition and leasing for use or occupation of such Improvement would not violate the conditions of paragraph 1 under "*Net Rent Leases*" above; (ii) that the lease referred to in paragraphs 2, 3 and 4 under "*Certain Covenants by the State - Net Rent Leases*" above has been entered into; (iii) that the payments to be made by the lessee pursuant to the provisions of such paragraph 2 will be sufficient to pay the principal of and interest and premium (if any) on the Special Obligation Bonds as the same mature and to pay all trustee's, fiscal agents' and paying agents' fees and expenses in connection therewith; and (iv) that the additional rentals to be paid by the lessee pursuant to such paragraph 3 are fair and reasonable and as to the ground rental required by that paragraph (if any such ground rent be required) is in compliance with the schedule established by the Department for the rental of lands of the Undertaking; and

B. there shall have been filed with the Department an Opinion of Counsel that the lease for the Improvement to be financed from such Special Obligation Bonds entered into pursuant to the Certificate is valid according to its terms and complies with the provisions of such paragraphs 2, 3 and 4.

**Refunding of Special Obligation Bonds.** (Certificate – Section 7.03.) Outstanding bonds of an issue of Special Obligation Bonds may be refunded by an issue of refunding Special Obligation Bonds, provided that: (1) the refunding Special Obligation Bonds shall be secured by and payable solely from the rentals from that Improvement, from the rentals of which the Special Obligation Bonds to be refunded were payable; (2) the aggregate amount of principal, interest and premium (if any) upon the redemption thereof from any sinking fund which shall be payable on the refunding Special Obligation Bonds shall not be greater than the aggregate amount of principal, interest and

premium (if any) upon the redemption thereof from any sinking fund which would be payable on the Special Obligation Bonds to be refunded were such refunding not to occur; (3) the refunding will not decrease the rentals payable for the Improvement payable pursuant to paragraph 3 under "*Certain Covenants by the State – Net Rent Leases*" above; (4) the Net Rent Lease for the Improvement during the life of such refunding bonds shall comply with paragraphs 2, 3 and 4 under "*Certain Covenants by the State – Net Rent Leases*" above; (5) the refunding Special Obligation Bonds shall mature within the useful life of the Improvement (as estimated by the Harbor Consultant) and within the term of the new or amended lease entered into with respect to such refunding; (6) the termination date of the term of any new or amended lease entered into with respect to such Improvement shall not be later than the termination date of the term of the lease entered into upon the issuance of the Special Obligation Bonds to be refunded; and (7) the Certificate of the Harbor Consultant and the Opinion of Counsel required under "*Certain Covenants by the State – Special Obligation Bonds*" above shall be filed with respect to such refunding Special Obligation Bonds. Special Obligation Bonds may also be refunded by Additional Bonds if (i) all such Special Obligation Bonds pertaining to a particular Improvement are refunded at one time from such Additional Bonds; (ii) the conditions contained in the Certificate for the issuance of Additional Bonds are complied with upon such refunding, and, for the purposes of any such refunding, such refunding shall be considered as though the Department were acquiring such Improvement by the issuance of such Additional Bonds; and (iii) upon any such refunding all leases pertaining to the Improvement shall be amended to include a provision to the effect that such lease is subject to the rights of the Holders of the Bonds.

***When Improvement Shall Constitute Part of the Undertaking; Priority of Payments and Credits for Bonds Issued Under the Certificate.*** (Certificate – Section 7.04.) So long as any Special Obligation Bonds issued for an Improvement are outstanding and unpaid, or until the payment thereof shall have been duly and adequately provided for, such Improvement shall not be considered to be part of the Undertaking. Upon the retirement of the indebtedness evidenced by such Special Obligation Bonds or evidenced by refunding Special Obligation Bonds, unless such Improvement is subject to an option to purchase by the lessee and such option shall have been exercised, all rentals and other income thereafter received by the State (including by the Department) from the Improvement for which such Special Obligation Bonds were issued shall, to the extent permitted by law, constitute Revenues and be paid into the Harbor Special Fund, to be used and applied as are other moneys deposited therein, and if such rentals and other income shall constitute Revenues, such Improvement shall, unless contrary to law, constitute part of the Undertaking; provided, however, that if any such Special Obligation Bonds are retired through the refunding thereof from the proceeds of Additional Bonds, such Improvement may not be subject to any purchase option and in all events (subject to the provisions of the Certificate permitting alienation or disposition of Property) shall thereafter constitute part of the Undertaking and the rentals and other income therefrom shall constitute part of the Revenues; and provided, further, that, except with respect to properties which have become part of the Undertaking by reason of the issuance of Additional Bonds to refund the Special Obligation Bonds issued therefor (the costs of operation and maintenance of which properties shall be paid or provided for in the same manner as are such costs incurred with respect to all other properties constituting part of the Undertaking), any expenditure of moneys from the Revenues or the Harbor Special Fund for operation and maintenance of any property constituting or which constituted an Improvement shall be made only after the payments and credits required by priority items "FIRST" and "SECOND" described above under the caption "*Allocation and Application of Revenues*" have been duly made or provided for.

***Right of State To Execute Supplemental Certificates Without Consent of Holders of Bonds.*** (Certificate – Section 10.01.) The State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time and without the consent or concurrence of the Holder of any Bond, may make and execute a Supplemental Certificate (i) for the purpose of providing for the issuance of Additional Bonds or the issuance of Refunding Bonds, (ii) to make any changes or modifications of the Certificate or amendments, additions or deletions to the Certificate which may be required to permit the Certificate to be qualified under the Trust Indenture Act of 1939 of the United States of America and (iii) if the provisions of such Supplemental Certificate shall not materially adversely affect the rights of the Holders of the Bonds then Outstanding, for any one or more of the following purposes:

1. To make any changes or corrections in the Certificate or any supplement as to which it shall have been advised by its counsel that the same are minor clerical or typographical corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Certificate or in any such supplement thereto, or to insert in the Certificate such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable;

2. To add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders;

3. To surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any supplement thereto;

4. To confirm as further assurance any lien, pledge or charge, or the subjection of any additional revenue, property or collateral to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any supplement thereto;

5. To grant to or confer upon the Holders of the Bonds or any Support Provider any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;

6. To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the State payable from the Revenues;

7. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to obtain a favorable rating or ratings from any Rating Agency;

8. To add or modify any provision of the Certificate as a result of enactment of any State or federal law which changes the treatment of the Bonds or interest thereon for tax purposes;

9. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to permit such Series to be available through a book-entry system maintained by, or to be cleared through, The Depository Trust Company, New York, New York, or other securities depository, clearing corporation, or clearing agency;

10. To make any changes or corrections to the Certificate as are necessary to provide for the issuance of Bonds in a form not contemplated by the express provisions of the Certificate, including, without limitation, in the form of commercial paper, indebtedness which converts from a variable rate to a fixed rate, indebtedness which initially compounds or accrues interest and then converts to a current-interest-bearing instrument, and a Series of Bonds whereby the State pays a particular rate of interest and such interest payment is divided in a manner such that certain Bondholders receive a variable interest rate determined by the market and other Bondholders receive a residual interest rate approximating the difference between the interest payment paid by the State and such variable rate of interest; or

11. To modify, amend or supplement in any other respect any of the provisions of the Certificate, provided that such modifications shall have no adverse affect as to any Bond or Bonds which are then Outstanding.

Except for Supplemental Certificates providing for the issuance of Additional Bonds or Refunding Bonds, the State shall not make and execute any instrument or Supplemental Certificate, unless in the Opinion of Counsel the making and entering into of such instrument or such Supplemental Certificate is permitted by the provisions of the Certificate and the provisions of such instrument or of such Supplemental Certificate are not contrary to or inconsistent with the covenants or agreements of the State contained in the Certificate as originally issued or as amended with the consent of the Bondholders.

***Execution of Supplemental Certificates With Consent of Bondholders.*** (Certificate – Section 10.02.) With the consent of the Holders of not less than a majority of the principal amount of the Bonds then Outstanding, the State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time, may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any supplement thereto, or modifying or amending the rights and obligations of the Department thereunder, or

modifying in any manner the rights of the Holders of the Bonds; provided, however, that, without the specific consent of the Holder of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding under the Certificate, no such instrument or certificate amending or supplementing the provisions of the Certificate shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any such instrument or certificate amending or supplementing the provisions of the Certificate; (3) give to any Bond or Bonds, whether Series 1997 Bonds, Additional Bonds or Refunding Bonds, any preference over any other Bond or Bonds secured by the Certificate; (4) authorize the creation of any pledge of the Revenues or any lien or charge thereon prior or superior to or on a parity with the pledge of and lien and charge thereon created in the Certificate for the payment of the Bonds except to the extent provided in Article II of the Certificate; or (5) deprive any Holder of the Bonds of the pledge and lien created by the Certificate, and provided, further, that if moneys or Federal Securities shall have been deposited in accordance with the provisions of the Certificate relating to the defeasance for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of Article XII of the Certificate shall be made without the specific consent of the Holder of each Bond which would be affected thereby. A modification or amendment of the provisions of Article V of the Certificate with respect to the 1997 Certificate Harbor Revenue Special Fund or the 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account, 1997 Certificate Harbor Debt Service Reserve Account or 1997 Certificate Harbor Reserve and Contingency Account shall not be deemed a change in the terms of payment of the Bonds; provided, however, that no such modification or amendment shall, except upon the consent of the Holders of all Bonds then Outstanding affected thereby, reduce the amount or amounts required to be deposited in the 1997 Certificate Harbor Revenue Special Fund for credit to the 1997 Certificate Harbor Interest Account, 1997 Certificate Harbor Principal Account or 1997 Certificate Harbor Debt Service Reserve Account therein. (Nothing contained in the Certificate, however, shall be construed as making necessary the approval by the Holders of the Bonds of the adoption of any amending or supplementing certificate authorized by the Certificate.)

The proof of the giving of any consent required and of the holding of Bonds for the purposes of giving consent shall be made in accordance with the provisions of Section 9.01 of the Certificate, and it shall not be necessary that the consents of the Holders of the Bonds approve the particular form of wording of the proposed amendment or supplement, but it shall be sufficient if such consent approve the substance thereof. After the Holders of the required percentage of Bonds shall have filed their consents to the amendment or supplement of the Certificate, the Department shall mail, or shall cause the Registrar to mail, a copy of such notice, postage prepaid, to each Holder of Bonds then Outstanding, at his address appearing upon the Bond Register, but failure to mail copies of said notice to any Holder shall not affect the validity of such instrument or Supplemental Certificate or the consents thereto. A record, consisting of the required papers, shall be proof of the matters therein stated until the contrary is proved, and no action or proceeding to set aside or invalidate such instrument or Supplemental Certificate or any proceedings for its adoption shall be instituted or maintained unless such action or proceeding for such purpose is commenced within 60 days after the mailing of the required notice.

Bonds delivered after the effective date of any action taken as provided above may bear a notation, by endorsement or otherwise, in form approved by the Department, as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the office of the Director of Finance or other Paying Agent, transfer agent or Registrar for such Bond under the Certificate and at such additional offices as the Director of Finance may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Department shall so determine, new Bonds so modified as in the opinion of the Department to conform to the amendments or supplements so consented to by the Bondholders shall be prepared, executed and delivered, and upon demand of the Holder of any Bond then Outstanding, his Bond shall be exchanged without cost to such Bondholder, for a new Bond, upon surrender of such Outstanding Bonds.

***Events of Default; Remedies.*** (Certificate – Sections 11.01 to 11.06.)

***Events of Defaults.*** The following shall constitute “Events of Default”:

a. if payment of the interest on, or principal (including any Sinking Fund Installment) or premium (if any) of any Bond, whether at maturity or by proceedings for redemption, by declaration or otherwise, shall not be made after the same shall become due and payable; or

b. unless all the Bonds then Outstanding shall have been called for retirement or for redemption, if the Undertaking or any building or facility constituting a part thereof shall be destroyed or damaged so as to reduce the revenues, fees and earnings derived from the Undertaking below the amount required by the Rate Covenant to be produced and maintained and the Department does not, to the extent of the proceeds of insurance or self-insurance and the moneys on deposit in the 1997 Certificate Harbor Revenue Special Fund on credit to the 1997 Certificate Harbor Reserve and Contingency Account available therefor, promptly repair or reconstruct such destroyed or damaged building or facility, or promptly erect or substitute in place of the building or facility destroyed or damaged other buildings and facilities which produce revenues and fees comparable to those produced by the building or facility destroyed or damaged and subject to the lien of the Certificate and deposit in the 1997 Certificate Harbor Revenue Special Fund an amount of the revenues and fees to be derived therefrom comparable to those theretofore derived from the building or facility destroyed or damaged, which amounts so deposited shall constitute Revenues, to be used and applied as are all other Revenues, provided that nothing in this clause shall be deemed to require the repairing, reconstruction or replacement of any building or facility which at the time of such destruction or damage was unserviceable, inadequate, obsolete, worn-out or unfit to be used or no longer required for use in connection with the security and payment of the Bonds; or

c. if the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate or in any Supplemental Certificate on the part of the Department to be performed, and such default shall continue for 90 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Holders of not less than 50% in principal amount of the Bonds then Outstanding, or any trustee or committee therefor; provided, however, that if such failure shall be such that it cannot be corrected within such 90-day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; or

d. if the Capital Improvement Bonds or the 1990 Certificate Harbor Revenue Bonds shall have been declared due and payable pursuant to an acceleration resulting from an event of default under the Capital Improvement Certificate or the 1990 Certificate, respectively, as in force on the date of effectiveness of the Certificate; or

e. if any proceedings shall be instituted, with the consent or acquiescence of the State, for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or any other moneys pledged and charged in the Certificate or in any Supplemental Certificate, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute as of date of the Certificate or thereafter enacted; or

f. if an order or decree shall be entered (1) with the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof, (2) with or without the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings or facilities thereof if such receiver or receivers are appointed pursuant to the provisions of the Capital Improvement Certificate or the 1990 Certificate, or (3) without the consent or acquiescence of the State, appointing a receiver or receivers of the Undertaking or any of the buildings and facilities thereof and such order or decree having been entered, shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; or

g. if, under the provision of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or any of the buildings and facilities thereof, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control; or

h. if the Department or the State shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

*Declaration of Principal and Interest as Due.* Upon the occurrence and continuation of an Event of Default, then and in each and every case the Holders of not less than 50% in principal amount of the Bonds then Outstanding may, by written notice to the Department filed in the office of the Department and with the Director of Finance, proceed to declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon and together with all other moneys secured by the Certificate, if not already due, to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in the Certificate, any Supplemental Certificate or in any of the Bonds contained to the contrary notwithstanding, except to the extent otherwise provided in connection with a Support Facility. This provision is subject, however, to the condition that, if at any time after the principal of the Bonds, together with accrued and unpaid interest thereon shall have been so declared due and payable and before any further action has been taken (other than the making of the above declaration), the principal amount of all Bonds which have matured either according to the maturity date or dates specified therein or otherwise (except as a result of such declaration) and all arrears of interest upon all Bonds, except interest accrued but not yet due on said Bonds, shall be paid or caused to be paid, and all other Events of Default, if any, which shall have occurred shall have been remedied, cured or secured, then and in every such case the Holders of a majority in principal amount of the Bonds then Outstanding, by notice in writing delivered to the Department and the Director of Finance, may waive such default and its consequences and rescind such declaration. No such waiver or rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

*Possession of Undertaking by Bondholders' Committee; Appointment of a Receiver.* Upon the occurrence of an Event of Default and the continuation thereof, if no Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds are at the time Outstanding or any of such Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds being then outstanding, if due and adequate provisions for the payment thereof has theretofore been made, then in each and every case a Bondholders' Committee representing the Holders of not less than a majority of the Bonds at the time Outstanding, as a matter of right against the State, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law, be entitled to take possession and control of the business and properties of the Undertaking. Upon taking such possession, the Bondholders' Committee shall operate and maintain the Undertaking, make any necessary repairs, renewals and replacements in respect thereof, impose and prescribe rates, fees and charges for use of the Undertaking and collect, receive and apply the Revenues.

Upon the occurrence of an Event of Default and the continuation thereof, if no Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds are at the time Outstanding or any of such Capital Improvement Bonds and 1990 Certificate Harbor Revenue Bonds being then Outstanding, if due and adequate provision for the payment thereof has theretofore been made, then in each and every case the Holders of not less than 50% in the principal amount of the Bonds then Outstanding or any trustee therefor shall be entitled to the appointment of a receiver by any court of competent jurisdiction. Any such receiver may be appointed upon the application of Holders of Bonds of said aggregate principal amount, or any trustee therefor, to the Circuit Court of the First Judicial Circuit, which is vested with jurisdiction in such proceedings, or to any other court of competent jurisdiction in the State. Any receiver so appointed may enter and take possession and control of the Undertaking, operate and maintain the same, make any necessary repairs, renewals and replacements, impose and prescribe rates, fees and charges and collect, receive and apply all Revenues thereafter arising therefrom in the same manner as the Department itself might do. No bond shall be required of such receiver.

*Bondholders' Committee.* Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the Holders of not less than 50% in principal amount of the Bonds then Outstanding may call a meeting of the Holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Certificate. At such meeting the Holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice, other than as required by the Certificate. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the Holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The

Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Certificate and may provide for the termination of the existence of the Bondholders' Committee.

*Suits at Law or Equity and Mandamus.* In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to the provisions, limitations and conditions contained in the Certificate relating to the amendment thereof, the Holder of any Bond at the time Outstanding shall be entitled, for the equal benefit and protection of all Holders of the Bonds similarly situated, to proceed and protect and enforce the rights vested in such Holder by the Certificate by such appropriate judicial proceeding as such Holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Certificate, or in aid of the exercise of any power granted in the Certificate, or to enforce any other legal or equitable right vested in the Holders of Bonds by the Certificate or by law.

*Remedies Not Exclusive; Effect of Waiver of Defaults; Effect of Abandonment of Proceedings or Adverse Determination.* The Holders from time to time of the Bonds shall be entitled to all the remedies and benefits of the Certificate as is and as shall be provided by law, and nothing therein shall be construed to limit the rights or remedies of any such Holders under any applicable statute that may exist as of date of the Certificate or be enacted thereafter. The remedies shall not be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Certificate, or as of the date of the Certificate or thereafter existing at law or in equity or by statute and may be exercised without exhausting and without regard to any other remedy.

No waiver of any default or breach of duty or contract by any Holder or any Bond shall extend to or affect any subsequent default or breach of duty or contract or shall impair any rights or remedies thereon. No delay or omission of any Holder of a Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein. Every substantive right and remedy conferred upon the Holders of the Bonds may be enforced from time to time and as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adversely to the Holders of the Bonds, then and in every such case the State and such Holders shall be restored to their former positions and rights and remedies as if no suit, action or proceeding had been brought or taken.

*Discharge of Liens and Pledges; Bonds No Longer Deemed Outstanding Under the Certificate.* (Certificate – Section 12.01.) The obligations of the State, including, without limiting the generality of the foregoing, of the Department, under the Certificate and the liens, pledges, charges, trusts, assignments, covenants and agreements of the State, including the Department, therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Certificate:

(A) if such Bond shall have been purchased and canceled by the State or surrendered to the Director of Finance or other Paying Agent, transfer agent or Registrar for cancellation or be subject to cancellation by him or it; or

(B) as to any Bond not theretofore purchased and canceled, surrendered for cancellation or subject to cancellation, when payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise) either:

(1) shall have been made or caused to be made when due and payable in accordance with the terms thereof; or

(2) shall have been provided by irrevocably depositing with the Director of Finance or other Paying Agent therefor, in trust solely for such payment, either (i) moneys sufficient to make such payment, (ii) Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (iii) a combination of both moneys and Federal Securities and all necessary and proper fees, compensation and expenses of any Paying Agent, transfer agent or Registrar appointed by the State pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Paying Agent, transfer agent or Registrar. At such time as a Bond shall be deemed to be no longer Outstanding under the Certificate, as aforesaid, except for the purpose of any such payment from such moneys or Federal Securities, such Bond shall no longer be secured by or entitled to the benefits of the Certificate and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration, or otherwise).

Notwithstanding the foregoing, with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof and which the State elects to so redeem or prepay, no deposit under clause (2) of subparagraph (B) above shall constitute such discharge and satisfaction as aforesaid until such Bonds shall have matured or shall have been irrevocably called or designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been given or irrevocable provision shall have been made for the giving of such notice, provided that nothing in Article XII of the Certificate shall require or be deemed to require the State to elect to redeem or prepay such Bonds or, in the event the State shall elect to redeem or prepay such Bonds, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Director of Finance or other Paying Agents as described above may at the direction of the Department be invested and reinvested in Federal Securities, maturing in the amounts and times as set forth in the Certificate, and all income from all such Federal Securities in the hands of the Director of Finance and other Paying Agents which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited, shall, to the extent permitted by law, be deposited in the 1997 Certificate Harbor Revenue Special Fund as and when realized and collected for use and application as are other moneys deposited in such Fund.

Notwithstanding the foregoing, the payment of (i) the purchase price of and interest on Variable Rate Bonds tendered for purchase pursuant to the terms of the Certificate and of a Remarketing Agreement, or similar agreement, or (ii) principal of or interest on any Variable Rate Bonds with a draw, borrowing or payment under a Support Facility shall not be deemed payment of such Variable Rate Bonds pursuant to the defeasance provisions of the Certificate; provided, however, that with respect to (ii) above, a reimbursement or other payment by the State with respect to a draw, borrowing or payment under a Support Facility for the payment of principal, premium, if any, or interest on Variable Rate Bonds when due shall be deemed to the payment of such Variable Rate Bonds for the purpose of such defeasance provisions.

All moneys or Federal Securities set aside and held in trust pursuant to the provisions of Article XII of the Certificate for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Federal Securities have been so set aside in trust.

If moneys or Federal Securities have been deposited or set aside with the Director of Finance or other Paying Agent for the payment of Bonds and such Bonds shall be deemed to have been paid and be no longer Outstanding under the Certificate, but such Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions shall be made without the consent of the Holder of each Bond affected thereby and such Bonds shall be considered to be Outstanding for purposes of the provisions of the Certificate relating to amendments upon consent of Bondholders.

The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, which the State may have acquired in any manner whatsoever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Certificate.

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

[Excluding exhibits to original certificate.]

#### CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State"), acting by and through the State Director of Transportation, in connection with the issuance of \$56,290,000 State of Hawaii Harbor System Revenue Bonds, Series of 1997 (the "1997 Bonds"). The 1997 Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State and that certain Certificate of the Director of Transportation Providing for the Issuance of the State of Hawaii, Harbor System Revenue Bonds dated as of March 1, 1997, as supplemented by the First Supplemental Certificate of the Director of Transportation providing for the Issuance of the State of Hawaii, Harbor System Revenue Bonds, Series of 1997, dated as of March 20, 1997 (collectively, the "Bond Certificate").

Pursuant to the First Supplemental Certificate, the State, acting by and through its Director of Transportation, agrees as follows:

Section 1. Purpose of Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Bondholders and Beneficial Owners of the 1997 Bonds and in order to assist the Participating Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Information" means the type of financial information and operating data set forth under the subheadings "SOURCES OF REVENUES – Service Revenues, Rentals Income, Other Operating Revenues and Interest Income," "THE HARBOR SYSTEM – Annual Trends in Cargo Traffic for Hawaii Harbors, Annual Trends in Cargo Volume for Hawaii Harbors, Statement of Historical Operations and Debt Service Coverage" in the final Official Statement, dated March 20, 1997, for the 1997 Bonds.

"Audited Financial Statements" means the audited financial statements of the Harbor Special Fund and any other fund of the State into which Revenues are deposited, prepared in accordance with generally acceptable accounting principles as promulgated from time to time by the Government Accounting Standards Board and the Financial Accounting Standards Board of the Financial Accounting Foundation.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 1997 Bonds (including persons holding 1997 Bonds through a Clearing Agency, nominees, depositories or other intermediaries) or (b) is treated as the owner of any 1997 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the Director of Finance and which has filed with the Director of Finance a written acceptance of such designation.

"Filing Date" means the first day of the tenth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning April 1, 1998.

"Fiscal Year" means each fiscal year of the Department of Transportation, commencing with the fiscal year that beginnings July 1, 1996 and ends June 30, 1997.

"Listed Events" shall mean any of the events listed in subsection 4(a) of this Disclosure Certificate.

**“National Repository”** shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange commission are set forth in Exhibit B.

**“Participating Underwriters”** shall mean any or the original underwriters of the 1997 Bonds required to comply with the Rule in connection with offering of the 1997 Bonds.

**“Repositories”** shall mean each National Repository and each State Repository.

**“Rule”** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**“State”** shall mean the State of Hawaii.

**“State Repository”** shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

**Section 3.        Filing of Annual Information and Audited Financial Statements.**

(a)        The State is the only “obligated person” (as defined in the Rule) for the 1997 Bonds.

(b)        The State shall provide, or shall cause the Dissemination Agent to provide, to each Repository:

          (i)        Annual Information for the preceding Fiscal Year, and unaudited financial statements of the Pledged Funds if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

          (ii)       Audited Financial Statements for the preceding Fiscal Year, not later than the later of (A) the Filing Date of each Fiscal Year or (B) 30 days after receipt thereof by the Department of Transportation.

Audited Financial Statements are expected to be available together with the Annual Information. The State is required to deliver, or cause to be delivered, such information in such manner and by such time so that the Repositories receive the information on or before the date specified.

The Annual Information may be submitted as a single document or as separate documents comprising a package and may cross-reference other information including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference. The Audited Financial Statements may be submitted separately from the Annual Information.

If the Department’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 4(b).

(c)        If the State is unable to provide to the Repositories the information described in subsection (b) by the Filing Date, the Director of Finance shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d)        If the Director of Finance has appointed a Dissemination Agent, then not later than 15 Business Days prior to Filing Date, the Director of Transportation shall provide the Annual Information and Audited Financial Statements (or unaudited financial statements if the Audited Financial Statements are not available) to the Dissemination Agent.

(e) The Dissemination Agent shall:

(i) determine each year prior to the Filing Date the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Director of Finance, file a report with the Director of Finance certifying that the information described in subsection (b) has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

**Section 4. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 4, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 1997 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. bond calls other than scheduled mandatory sinking fund redemptions;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the 1997 Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflected financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the 1997 Bonds.

(b) Whenever the Director of Transportation or other responsible officials of the State become aware of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws and, if so, the State shall prepare and provide or cause to be provided notice of such occurrence to each Repository.

Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) above need not be given under this subsection (b) any earlier than the notice (if any) of the underlying event is given to Bondholders of affected 1997 Bonds pursuant to the Bond Certificate.

**Section 5. Termination of Reporting Obligation.** The State's obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or repayment in full of all of the 1997 Bonds or (b) when the Rule no longer applies to the 1997 Bonds. If such termination occurs prior to the final maturity of the 1997 Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 4(b).

**Section 6. Dissemination Agent.** The Director of Finance may, from time to time, appoint or engage a Dissemination Agent to assist the State in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent

shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

**Section 7.        Amendment; Waiver; Amendment to Accounting Principles to be Followed.**

(a)        Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(i)        If the amendment or waiver relates to the definition of "Annual Information" or the provisions of subsection 3(a) or (b), or Sections 4, 5 or 7, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Obligated Person with respect to the 1997 Bonds, or the type of business conducted by the Obligated Person;

(ii)        The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel selected by the State, have complied with the requirements of the Rule at the time of the original issuance of the 1997 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii)        The amendment or waiver either (i) is approved by the Holders of the 1997 Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders of 1997 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel selected by the State, materially impair the interests of the Holders or Beneficial Owners of the 1997 Bonds.

(b)        In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Information, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of the information being presented by the State.

(c)        If the amendment changes the accounting principles to be followed in preparing financial statements from that specified in the definition of Audited Financial Statements, then (i) the State shall give notice of such amendment in the same manner as for a Listed Event under subsection 4(b), and (ii) the Annual Information for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the amended definition of accounting principles and those prepared on the basis of the former definition of accounting principles.

**Section 8.        Additional Information; Supplements.**

(a)        Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate.

If the State chooses to include any information in any Annual Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Information or notice of occurrence of a Listed Event.

(b)        Nothing in this Disclosure Certificate shall be deemed to prevent the State from supplementing this Disclosure Certificate to provide that it shall also govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Bond Certificate).

Section 9. Failure to Perform.

(a) The agreements of the State set forth in Section 3 and 4 of this Disclosure Certificate are intended to be for the benefit solely of the Bondholders and Beneficial Owners from time to time of the 1997 Bonds.

The sole remedy for any breach of this Disclosure Certificate by the State shall be limited, as hereinafter described, to a right of Bondholders and Beneficial Owners to cause proceedings at law or in equity to be instituted and maintained to obtain mandate or specific performance by the State of its obligations hereunder. Any individual Bondholder or Beneficial Owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the State to provide or cause to be provided a pertinent filing if such filing is due and has not been made. Any such proceedings challenging the adequacy of the information provided in accordance with this Disclosure Certificate may be instituted and maintained only by the Bondholders and the Beneficial Owners of not less than 50% in principal amounts of the 1997 Bonds then outstanding or their agent.

(b) Any failure of the State to comply with any provisions of this Disclosure Certificate shall not be a default or an event of default with respect to the 1997 Bonds under the Bond Certificate.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Bondholders and Beneficial Owners from time to time of the 1997 Bonds and shall create no rights in any other person or entity.

Section 11. Recordkeeping. The Director of Finance shall maintain records of all Annual Information and notice of material Listed Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

Section 12. Governing Law. This Disclosure Certificate shall be governed by the laws of the State.

Dated: April 3, 1997.

/s/ Kazu Hayashida

KAZU HAYASHIDA

Director of Transportation

Department of Transportation

State of Hawaii

## FORM OF SECOND SUPPLEMENT TO CONTINUING DISCLOSURE CERTIFICATE

This Second Supplement to Continuing Disclosure Certificate (this "Supplemental Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State"), acting by and through the State Director of Transportation, in connection with the issuance of \$ \_\_\_\_\_ State of Hawaii Harbor System Revenue Bonds, Series A of 2002 (the "Series 2002 Bonds") and supplements the Continuing Disclosure Certificate (the "Disclosure Certificate") dated April 3, 1997 (incorporated by reference herein) pursuant to Section 8(b) thereof. The Series 2002 Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State and that certain Certificate of the Director of Transportation Providing for the Issuance of the State of Hawaii, Harbor System Revenue Bonds dated as of March 1, 1997, as heretofore supplemented and as supplemented by the Second Supplemental Certificate of the Director of Transportation Providing for the Issuance of the State of Hawaii Harbor System Revenue Bonds, Series A of 2002, dated as of \_\_\_\_\_, 2002 (the "Bond Certificate").

Pursuant to the Bond Certificate, the State, acting by and through its Director of Transportation, agrees as follows:

**Section 1. Purpose of Supplemental Disclosure Certificate.** This Supplemental Disclosure Certificate is being executed and delivered by the State for the benefit of the Bondholders and Beneficial Owners of the Series 2002 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

**Section 2. Applicability of Disclosure Certificate.** Section 8(b) of the Disclosure Certificate permits the State to supplement the Disclosure Certificate to provide that it also shall govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Bond Certificate). The Series 2002 Bonds are Additional Bonds. Accordingly, and pursuant to Section 8(b) of the Disclosure Certificate, the Disclosure Certificate is hereby supplemented and shall govern the continuing disclosure for the Series 2002 Bonds. For the purposes of this Supplemental Disclosure Certificate, all references in the Disclosure Certificate to the "1997 Bonds" shall be deemed to be to the Series 2002 Bonds.

**Section 3. Definitions.** In addition to the definitions set forth elsewhere in this Supplemental Disclosure Certificate, in Section 2 of the Disclosure Certificate and in the Bond Certificate, the following capitalized terms shall have the following meanings for the purposes of this Supplemental Disclosure Certificate and the Series 2002 Bonds:

"*Annual Information*" means the type of financial information and operating data set forth under the subheadings "SOURCES OF REVENUES—Services Revenues - Rentals Income - Other Operating Revenues and - Interest Income," and "THE HARBOR SYSTEM - Table 5 - Annual Trends in Cargo Traffic for Hawaii Harbors," "Table 6- Annual Trends in Cargo Volume for Hawaii Harbors," "Table 10 - Statement of Historical Operations" and "Table 11 – Historical Debt Service Coverage" in the final Official Statement, dated \_\_\_\_\_, 2002, for the Series 2002 Bonds.

"*Filing Date*" means the first day of the tenth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day), beginning April 1, 2003.

"*Fiscal Year*" means each fiscal year of the Department of Transportation, commencing with the fiscal year that begins July 1, 2002 and ends June 30, 2003.

**Section 4. National Repository.** The National Repositories currently approved by the Securities and Exchange Commission are set forth at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

**Section 5. Governing Law.** This Second Supplement to Continuing Disclosure Certificate shall be governed by the laws of the State.

Dated: \_\_\_\_\_, 2002

STATE OF HAWAII

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

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**APPENDIX E-1**

**FORM OF OPINION OF BOND COUNSEL**

**SERIES A OF 2002 BONDS**

[Letterhead of Pillsbury Winthrop LLP]

[Date of Delivery]

Mr. Brian K. Minaai  
Director of Transportation  
Department of Transportation  
State of Hawaii  
869 Punchbowl Street  
Honolulu, HI 96813

\$ \_\_\_\_\_  
State of Hawaii  
Harbor System Revenue Bonds  
Series A of 2002

Dear Mr. Minaai:

At the request of the State of Hawaii (the "State"), we have acted as Bond Counsel in connection with the issuance and sale by the State of its \$ \_\_\_\_\_ State of Hawaii Harbor System Revenue Bonds, Series A of 2002 (the "Bonds"). The Bonds are dated April 1, 2002, are in the denomination of \$5,000 of any integral multiple thereof, and mature serially on July 1 in each of the years and in the respective principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing July 1, 2002 at the rate per annum set opposite such year, as follows:

<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
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The Bonds are subject to optional redemption and mandatory sinking fund redemption by the State prior to the respective stated maturities thereof. The Bonds are transferable and exchangeable upon the terms and conditions set forth therein and recite that they have been authorized and issued pursuant to the laws of the State of Hawaii. The Bonds are being used, together with other available moneys, to refund the outstanding principal amount of the State of Hawaii Harbor Revenue Bonds, Refunding Series of 1992, dated as of October 1, 1992, maturing on and after July 1, 2002. The Bonds recite that they are authorized to be issued and are issued under, pursuant to and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly, Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds dated as of March 1, 1997 (the "Certificate"), duly authorized and delivered under the aforesaid Part III, and pursuant to that certain Third Supplemental Certificate of the director of the Department of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds, Series A of 2002, dated as of \_\_\_\_\_, 2002 (the "Third Supplemental Certificate"), duly authorized and delivered under the aforesaid Part III and the Certificate. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Certificate.

The Bonds and any bonds heretofore or hereafter issued on a parity therewith under the Certificate are payable from the Revenues of the Undertaking net of the debt service requirements of the 1990 Certificate Harbor Revenue Bonds and payment of the operation and maintenance expenses of the Undertaking.

In connection with the issuance of the Bonds, we have examined the Constitution and laws of the State of Hawaii, certificates and documents of the Governor and of the Director of Transportation of the State authorizing the issuance of the Bonds, including the Certificate and Third Supplemental Certificate, such other proceedings as we have considered necessary or advisable and a copy of an executed Bond of said issue.

The Department of Transportation (the "Department") has covenanted to comply with certain applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code") to assure the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and made representations in the tax agreement with respect to the Bonds (the "Tax Agreement"). The opinions herein are expressed only on and as of the date hereof, and are based on existing laws, regulations, rulings, judicial decisions and other authorities, as in effect on the date hereof ("Existing Law"). Changes to Existing Law may occur hereafter, and could have retroactive effect. The opinions herein do not address the effect, if any, of such subsequent changes. The opinions herein also do not address the effect, if any, of actions taken or omitted or events occurring after the date hereof, differing from those reflected in the Tax Agreement. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur. We have assumed compliance with the aforementioned covenants. In addition, we have relied on the material accuracy of statements of fact and expectation set forth in the Tax Agreement, which we have made no effort independently to verify. A failure to comply with such covenants, the material inaccuracy of such representations or the occurrence (or non-occurrence) of certain events could adversely affect any exclusion from gross income of interest on the Bonds for Federal income tax purposes.

For purposes of rendering this opinion, we have reviewed the Code and such other authorities and matters as we have deemed necessary for purposes herein.

The Certificate and Third Supplemental Certificate provide that certain actions may not be taken (or omitted) unless there shall have been delivered the opinion of bond counsel to the effect that such actions will not adversely affect the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation. We express no opinion herein on the effect, if any (on the exclusion of interest on the Bonds from the gross income of the owners thereof), of taking any such actions (or omitting to do so), or of effecting any other changes concerning the Bonds, including the use of the proceeds thereof, or the nature or use of the facilities refinanced with the proceeds of the Bonds, if such action is taken, omitted or effected upon the advice or approval of any bond counsel other than ourselves.

The Code sets forth certain requirements which must be met subsequent to the issuance of the Bonds in order for interest thereon to be and remain excluded from the gross income of the owners thereof for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for Federal income tax purposes retroactive to the date of issuance of the Bonds. The Department has covenanted in the Certificate and the Third Supplemental Certificate, as described above, and in the Tax Agreement, to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103(a) of the Code.

Based on and subject to the foregoing, under Existing Law, we are of the following opinions:

From such examination, we are of the opinion that:

(1) The Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State of Hawaii and constitute valid special obligations of the State of Hawaii payable solely from and secured solely by a lien upon and pledge of Net Revenues, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate;

(2) The provisions of the Certificate and the Third Supplemental Certificate are valid in accordance with their terms;

(3) Assuming compliance with the aforementioned covenants and the accuracy of representations in the Tax Agreement, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under Existing Law, by reason of Section 103(a) of the Code, except during any period that any of the Bonds are held by a "substantial user" of the facilities refinanced with the proceeds of the Bonds or a "related person" within the meaning of Section 147(a) Code, and amounts so excluded are not treated as an item of tax preference for purposes of computing the Federal alternative minimum tax imposed on individuals, corporations and other taxpayers; however, such amounts will be included in the adjusted current earnings of certain corporation for purposes of the federal corporate alternative minimum tax and

(4) Under the existing statutes of the State of Hawaii, the Bonds and income therefrom are exempt from all taxation in the State of Hawaii or any county or other political subdivision thereof, except for inheritance, transfer and estate taxes and except to the extent such the Bonds or such income may be included in the measure of the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

Except as stated in paragraphs (3) and (4), we express no opinion as to Federal or State of Hawaii consequences of the ownership of the Bonds, including whether interest on the Bonds is: (a) included in the calculation of the amount subject to the "branch-level" tax imposed by Section 884 of the Code upon the earnings of certain foreign corporations engaged in a trade or business within the United States or (b) included in the income of certain Subchapter S corporations for purposes of the tax imposed thereon by Section 1375 of the Code. We also express no opinion as to any other federal, state, local or any foreign tax consequences with respect to acquisition, ownership or disposition of any of the Bonds.

Very truly yours,

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**APPENDIX E-2**

**FORM OF OPINION OF BOND COUNSEL**

**SERIES B OF 2002 BONDS**

[Letterhead of Pillsbury Winthrop LLP]

[Date of Delivery]

Mr. Brian K. Minaai  
Director of Transportation  
Department of Transportation  
State of Hawaii  
869 Punchbowl Street  
Honolulu, HI 96813

\$ \_\_\_\_\_  
State of Hawaii  
Harbor System Revenue Bonds  
Series B of 2002

Dear Mr. Minaai:

At the request of the State of Hawaii (the "State"), we have acted as Bond Counsel in connection with the issuance and sale by the State of its \$ \_\_\_\_\_ State of Hawaii Harbor System Revenue Bonds, Series B of 2002 (the "Bonds"). The Bonds are dated April 1, 2002, are in the denomination of \$5,000 of any integral multiple thereof, and mature serially on July 1 in each of the years and in the respective principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable semiannually each January 1 and July 1, commencing July 1, 2002 at the rate per annum set opposite such year, as follows:

<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
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The Bonds are subject to optional redemption and mandatory sinking fund redemption by the State prior to the respective stated maturities thereof. The Bonds are transferable and exchangeable upon the terms and conditions set forth therein and recite that they have been authorized and issued pursuant to the laws of the State of Hawaii. The Bonds are being used, together with other available moneys, to refund the outstanding principal amount of the State of Hawaii Harbor Revenue Bonds, Series of 1992, dated as of May 15, 1992, maturing on and after July 1, 2002. The Bonds recite that they are authorized to be issued and are issued under, pursuant to and in full compliance with the Constitution and statutes of the State of Hawaii, including particularly, Part III of Chapter 39, Hawaii Revised Statutes, as amended, and under and pursuant to that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds dated as of March 1, 1997 (the "Certificate"), duly authorized and delivered under the aforesaid Part III, and pursuant to that certain Third Supplemental Certificate of the director of the Department of Transportation Providing for the Issuance of State of Hawaii Harbor System Revenue Bonds, Series B of 2002, dated as of \_\_\_\_\_, 2002 (the "Third Supplemental Certificate"), duly authorized and delivered under the aforesaid Part III and the Certificate. All capitalized terms used herein that are not herein otherwise defined shall have the meanings ascribed thereto in the Certificate.

The Bonds and any bonds heretofore or hereafter issued on a parity therewith under the Certificate are payable from the Revenues of the Undertaking net of the debt service requirements of the 1990 Certificate Harbor Revenue Bonds and payment of the operation and maintenance expenses of the Undertaking.

In connection with the issuance of the Bonds, we have examined the Constitution and laws of the State of Hawaii, certificates and documents of the Governor and of the Director of Transportation of the State authorizing the issuance of the Bonds, including the Certificate and Third Supplemental Certificate, such other proceedings as we have considered necessary or advisable and a copy of an executed Bond of said issue.

The Department of Transportation (the "Department") has covenanted to comply with certain applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code") to assure the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and made representations in the tax agreement with respect to the Bonds (the "Tax Agreement"). The opinions herein are expressed only on and as of the date hereof, and are based on existing laws, regulations, rulings, judicial decisions and other authorities, as in effect on the date hereof ("Existing Law"). Changes to Existing Law may occur hereafter, and could have retroactive effect. The opinions herein do not address the effect, if any, of such subsequent changes. The opinions herein also do not address the effect, if any, of actions taken or omitted or events occurring after the date hereof, differing from those reflected in the Tax Agreement. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur. We have assumed compliance with the aforementioned covenants. In addition, we have relied on the material accuracy of statements of fact and expectation set forth in the Tax Agreement, which we have made no effort independently to verify. A failure to comply with such covenants, the material inaccuracy of such representations or the occurrence (or non-occurrence) of certain events could adversely affect any exclusion from gross income of interest on the Bonds for Federal income tax purposes.

For purposes of rendering this opinion, we have reviewed the Code and such other authorities and matters as we have deemed necessary for purposes herein.

The Certificate and Third Supplemental Certificate provide that certain actions may not be taken (or omitted) unless there shall have been delivered the opinion of bond counsel to the effect that such actions will not adversely affect the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation. We express no opinion herein on the effect, if any (on the exclusion of interest on the Bonds from the gross income of the owners thereof), of taking any such actions (or omitting to do so), or of effecting any other changes concerning the Bonds, including the use of the proceeds thereof, or the nature or use of the facilities financed or refinanced with the proceeds of the Bonds, if such action is taken, omitted or effected upon the advice or approval of any bond counsel other than ourselves.

The Code sets forth certain requirements which must be met subsequent to the issuance of the Bonds in order for interest thereon to be and remain excluded from the gross income of the owners thereof for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for Federal income tax purposes retroactive to the date of issuance of the Bonds. The Department has covenanted in the Certificate and the Third Supplemental Certificate, as described above, and in the Tax Agreement, to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103(a) of the Code.

Based on and subject to the foregoing, under Existing Law, we are of the following opinions:

From such examination, we are of the opinion that:

- (1) The Bonds have been duly authorized and issued in accordance with the Constitution and laws of the State of Hawaii and constitute valid special obligations of the State of Hawaii payable solely from and secured solely by a lien upon and pledge of Net Revenues, on a parity with all bonds which heretofore have been or hereafter may be issued under the Certificate, as set forth in the Certificate;
- (2) The provisions of the Certificate and the Third Supplemental Certificate are valid in accordance with their terms;

- (3) Assuming compliance with the aforementioned covenants and the accuracy of representations in the Tax Agreement, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes under Existing Law, by reason of Section 103(a) of the Code, except during any period that any of the Bonds are held by a "substantial user" of the facilities financed or refinanced with the proceeds of the Bonds or a "related person" within the meaning of Section 147(a) Code, and amounts so excluded are treated as an item of tax preference for purposes of computing the Federal alternative minimum tax imposed on individuals, corporations and other taxpayers; and
- (4) Under the existing statutes of the State of Hawaii, the Bonds and income therefrom are exempt from all taxation in the State of Hawaii or any county or other political subdivision thereof, except for inheritance, transfer and estate taxes and except to the extent such the Bonds or such income may be included in the measure of the franchise tax imposed on banks and other financial corporations pursuant to the laws of the State of Hawaii.

Except as stated in paragraphs (3) and (4), we express no opinion as to Federal or State of Hawaii consequences of the ownership of the Bonds, including whether interest on the Bonds is: (a) included in the calculation of the amount subject to the "branch-level" tax imposed by Section 884 of the Code upon the earnings of certain foreign corporations engaged in a trade or business within the United States or (b) included in the income of certain Subchapter S corporations for purposes of the tax imposed thereon by Section 1375 of the Code. We also express no opinion as to any other federal, state, local or any foreign tax consequences with respect to acquisition, ownership or disposition of any of the Bonds.

Very truly yours,

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**APPENDIX F**  
**FORM OF POLICY**

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**Financial Guaranty Insurance Policy**

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

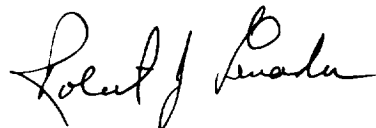
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.


As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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